2022/2023

ANNUAL REPORT

ARMSCOR

Armaments Corporation of South Africa SOC Ltd

GATEWAY TO DEFENCE SOLUTIONS

TABLE OF CONTENTS

PART A:
GENERAL INFORMATION

PART B:
PERFORMANCE INFORMATION

PART C:

PART D:

PART E:
PFMA COMPLIANCE REPORT

PART F:

PART G:

PART A:
GENERAL INFORMATION

GATEWAY TO DEFENCE SOLUTIONS

ARMSCOR
Armaments Corporation of South Africa SOC Ltd

WHO WE ARE

PART A: GENERAL INFORMATION

1.1 COMPANY DETAILS

Registered Name:	Armaments Corporation of South Africa SOC Limited
Physical Address:	Corner of Delmas Drive and Nossob Street, Erasmuskloof Extension 4, Pretoria
Postal Address:	Private Bag X377 Pretoria 0001, South Africa
Contact Telephone Numbers:	012 428 1911
Email Address:	Info@armscor.co.za
Website Address:	www.armscor.co.za
External Auditor:	Auditor-General of South Africa
Banker:	ABSA
Company Secretary:	Adv. Selaelo Portia Matsane

1.2 MINISTER OF DEFENCE AND MILITARY VETERANS REPORT

Ms T.R. MODISE, MP
MINISTER OF DEFENCE AND MILITARY VETERANS

It gives me great pleasure to present the 2022/23 Annual Report of Armscor. The period under review remained challenging for the Defence Industry and Armscor, due to low funding levels.

The Department of Defence (DOD) has been progressively requested to do more for less for several years now. The Department is not alone among government departments being asked to make these sacrifices. Armscor, like all SOEs, is also expected to deliver results with less.

The question is what kind of Defence Force does South Africa need and what can it afford? With this in mind, we need to develop a view on what level of defence South Africa needs, and what it can afford and maintain at a sustainable level.

Against the recommendations contained in the South African Defence Review 2015 and being mindful of the changes in the strategic environment. We require a quantum leap of thinking, including a significant discourse on the doctrine and combat capabilities that will be relevant for the future.

The economic and social realities facing South Africa cannot be ignored. The focus of the National Defence Force in the short to medium-term will be on the repair, maintenance and overhaul of existing defence capabilities, especially those capabilities required for current operations.

The DOD continued to fulfil its Constitutional mandate to defend the land, sea and air sovereignty of South Africa, aiding law enforcement agencies in their fight against cross-border crime, and fulfilling the country's global responsibilities to peacekeeping on the continent. To this end, in support of Government's national imperatives, the DOD continued to execute ordered commitments, as directed by the Commander-In-Chief.

During the reporting period, Armscor continued to play an important role as an arm of Defence. The National Defence Force is highly dependent on a healthy and sovereign indigenous local defence industry.

The Defence, Armscor and Defence Related Industry in South Africa is a force multiplier in growing our economy. The Public-Private Growth Initiative of the President placed the Defence, Armscor and Defence Related Industry within the top 10 economic sectors that could catalyse growth to the South African economy.

South Africa's defence industry is an important national asset and a contributor to creating employment, developing scarce skills and advancing new technologies in addition to helping defend and protect the nation. It is for these reasons that the defence sector has been highlighted as an area that needs to be grown and developed, and various initiatives and entities like the Aerospace and Defence Masterplan, National Defence Industry Council and domestic small arms manufacturing initiative are underway or have been established.

Africa, Aerospace and Defence (AAD) is an initiative of the DOD and the Defence Industry, which has been running for 20 years. This biennial show has expanded beyond defence and securing to attract oil, gas and mining companies as part of exhibitors. For the first time, unmanned aerial vehicles (UAVs) were flown at the AAD 2022 show. Safety and security are key prerequisites for economic growth and development, and that improved security attracts stability and investment. This encourages growth and promotes development.

I would like to thank Armscor Management and staff members for their continued commitment to the public service.

Ms T.R. MODISE, MP
MINISTER OF DEFENCE AND MILITARY VETERANS

1.3 CHAIRPERSON'S REPORT

DR. PHILLIP DAVID DEXTER
CHAIRPERSON

The Board of Armscor remains committed and resolute in discharging its fiduciary duties, by exercising due care and diligence, in providing oversight over the implementation of Armscor strategies and policies. The Board has taken care to foster the ethical values with the executive management and staff of Armscor, through living and reflecting Armscor's values in how we conducted business and interacted with one another, stakeholders and customers. Our commitment to our country has sharpened our ability to innovate, our resilience and adaptability amidst myriad of global and national challenges.

Armscor has remained focused on making an impact in its service delivery to the Department of Defence and other clients. The Corporate Plan for FY2022/23 identified the key strategic and emerging risks posed by the global and national impact of the COVID-19 pandemic which adversely impacted on every country's economy and their social and health systems. The pandemic has continued to and is still expected to continue to be felt even though the pandemic is over. The risk management process that was implemented from management to the board during this reporting year, ensured that the risk mitigation plans were rigorously managed and monitored in a concerted effort to counter the material impact on the pandemic's achievement of the statutory objectives and strategic goals of Armscor.

The global environment that has radically changed due to the conflict between Russia and Ukraine has affected global trade and the defence sector. To this end, Armscor has turned its focus towards assisting the defence industry in ensuring that the valuable intellectual property, Armscor is the custodian of, is utilised to the benefit of its owners, the citizens of our country. While the company still needs to improve in terms of business enablement, agreements with counterpart companies in Saudi Arabia and China and others still being negotiated have seen an increase in orders to Denel. A big focus of Armscor's time has been that of assisting and supporting Denel in terms of its turnaround strategy. This has begun to bear fruit, but there is a long way to go to re-establish our countries place in the global defence market. Protecting and developing the IP and sovereign capabilities of our country is a key focus for the year ahead.

The Board and Executive management remained steadfast in maintaining strategic and business relationships with key stakeholders, through existing Service Level Agreements that were concluded before the 2022/23 financial year, but also in pursuing new strategic business opportunities. The Minister of Defence and Military Veterans attended the signing of the Memorandum of Understanding between Armscor and Poly Technologies Inc. during the UAE's flagship IDEX NAVDEX 2023 event which is meant to facilitate investment between the Republic of South Africa and the UAE.

The funding of capital projects remains key in ensuring that Armscor discharges its mandate as the acquisition arm of the Department of Defence. In addition, the timely placement of orders for such projects is critical to ensure the delivery of the right project at the right time. The reduction of funds allocated to Armscor and the SANDF has a direct effect on some project deliverables such as maintenance and repairs and/or the financial ability to acquire parts for such maintenance and repairs. Whilst it is noted that National Treasury is being faced with a challenging task of allocating funds to various state institutions, it remains important that in the interests of the sovereignty of the Republic of South Africa, and for security of its borders and peace missions, that the funding allocation for Armscor, be increased for the next financial years. The Board, Executive Management and the Department, for this reporting year, ensured execution of the required projects. The Acquisition Committee and the Technology Industry Support and Sustainability Committee of the Board ensured oversight over defence technologies, research, intellectual property, sustainability, industry support, and acquisitions transactions. The Military Veterans Committee has begun working on concrete proposals to assist veterans in entering the industry.

The Department of Defence must at all times be assured of the protection, administration, management, and deployment of its Intellectual Property rights in its defence matériel. As the Minister previously stated in her Budget Vote 2022/23 delivery speech, "the significant strain placed on the Defence and Defence-Related Industry, and our increasing reliance on foreign manufacturers, puts us in a strategic quandary, with serious implications for the sovereignty of the Republic." The Board continues to collaborate with the Department, through Armscor's Research and Development Division, in ensuring the formulation of strategies to capacitate the research and development function to ensure the creation of projects with their own Intellectual Property.

WHO WE ARE

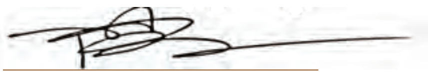
The Minister required, during her Budget Vote delivery speech, emphasised

- Commissioning a hard-hitting, factual and uncompromising economic review of the public and private companies in the Defence Industry.
- Provide a sober, realistic and unemotional analysis of capabilities and capacities remaining in the public and private components of the industry so that we can make hard choices against an informed base.
- To suggest measures, interventions and mechanisms that will improve industry support to the National Defence Force.
- To provide a clear view of the repositioning of the Industry in a manner that enhances the sovereignty of the Republic.
- To posit a new relationship with the Industry and other stakeholders that ensures the modernisation of the National Defence Force.
- Investigate how they might assist the Secretary for Defence with instituting wide-ranging reforms in the procurement and acquisition arenas.

The Board confirms that Executive Management conducted such analysis and duly submitted such to the Minister and further that the Board and Executive Management have relentlessly during this reporting year, promoted a new relationship with the industry and other stakeholders. The proposed Defence Industry Indaba that will take place this year is key in consolidating this.

The Board hereby thanks the Minister of Defence and Military Veterans, the Ministry, Members of the Portfolio Committee on Defence and Military Veterans, M.P's and stakeholders for their support, guidance and leadership during the reporting period.

The Board also thanks the Chief Executive Officer, EXCO members, all management and staff of Armscor for their commitment towards living the values of Armscor and for diligently providing services to the Department of Defence, industry players and the public at large.



DR. PHILLIP DAVID DEXTER
CHAIRPERSON

1.4 CHIEF EXECUTIVE OFFICER'S REPORT

ADV. SOLOMZI PHINEAS MBADA
CHIEF EXECUTIVE OFFICER

I hereby present the 2022/23 Annual Report for Armscor, which shows how Armscor has supported the DOD and defence-related industry at large. The details of these achievements are covered extensively throughout this annual report.

The Annual Report for the fiscal year ended 31 March 2023, is presented to all our stakeholders against a backdrop of significant challenges, mainly of a financial nature, faced by the Corporation.

In a year of geopolitical and economic strives, with sharply higher energy prices and rising inflation, Armscor continued to make strategic progress in executing its mandate, while driving to embed consistent performance across our operations after the disruptions of the two pandemic years. We have proved that in spite of external and internal challenges, Armscor remains poised to deliver on its mandate.

Performance review - Highlights and challenges

Armscor remains committed in upholding solid corporate governance principles that are underpinned by the application of transparency, ethical conduct and equity. To this end, Armscor is pleased to have obtained an unqualified audit outcome by the Auditor-General of South Africa. This is attributable to hard work and teamwork by our staff.

Company Performance

Armscor had a pleasing performance in the 2022/23 financial year, fulfilling our mandate of being an agency of the DOD that can meet its main client's needs and requirements in an efficient and cost-effective manner.

During the reporting period under review, most of the strategic goals were met in accordance with the Corporate Plan and in some cases were even exceeded. In accordance with the service level agreement, the requirements received were executed and orders placed for the fulfilling thereof. This Corporate Plan is a roadmap towards realising the Armscor future – Armscor that will strengthen its core and position for the future.

Project Highlights

Hydrographic Capability

The shipbuilding programmes for the Navy continues satisfactory. Delivery will continue second part of 2023, till early 2025.

During the reporting period, the construction of the HSV platform and its superstructure had been completed with the exception of installation of equipment, which is ongoing. The construction of the three SMBs and Sea Boat has been completed. The third SMB, which is meant to be kept as reserve has been handed over to the SA Navy for commencement of the operational test and evaluation phase. The upgraded SANHO has been completed and was handed over to the SA Navy.

Multi-Mission Inshore Patrol Capability

We are pleased to announce that the first of the three multi-mission inshore patrol vessels has been delivered to the South African Navy in May 2022. These vessels built in South Africa will be used to conduct effective operations and safeguard the maritime environment. The construction of the two remaining vessels as part of Project Biro is underway with the delivery expected in April 2023 and April 2024 respectively. This achievement demonstrates Armscor's capability to provide SANDF with state-of-the-art defence matériel required to provide safety and security for South Africa, its citizens and the continent at large. During this project both direct and indirect jobs were created in line with the South African Government's operation Phakisa objectives.

WHO WE ARE

SAS Manthatisi

During the reporting period, the SAS Manthatisi planned maintenance DED was completed and the boat undocked.

Scientists share knowledge on best practices

During the reporting period, Armscor hosted 22 scientists from 16 African countries during the 12th annual Analytical Chemistry course at its Protechnik Laboratories, under the Organisation for the Prohibition of Chemical Weapons Convention. The programme aims to strengthen cooperation within Africa on the implementation of the Chemical Weapons Convention. Scientists got an opportunity to learn how to conduct and verify authentic samples degradation of chemical warfare agents, instrument usage and software, method validation, analysis and the basic maintenance of laboratory equipment. Furthermore, this allowed scientists to share knowledge on best practices employed in their respective countries.

Armscor as a responsible Corporation is committed to supporting the communities in which we operate. In South Africa there is an acute shortage of skills in the science and engineering fields. Armscor needs these talented young people to complement our established expertise and we are committed to investing heavily in young people, especially in the fields of engineering and science. Giving back to communities not only brings value to those communities, it also assists the Corporation in ensuring that future skills requirements are met. In this regard, Armscor is involved in the Talent Development Programme, which aims to develop a pool of readily available talent and technical expertise to meet required skills for our current and future business strategic needs. These graduates were recruited from our 38 student bursary pools and were provided with opportunities to work on advanced technologies at Armscor and with other partners in the defence industry. Furthermore, Armscor Youth-Workforce Development Programme in Partnership with the Gauteng City Region Academy (GCRA) (TVET Programme): Eleven learners have been placed at Armscor effective from December 2022 for the duration of twelve months, of which five learners were placed in supporting roles within the different divisions in Armscor. These five learners are all learners living with disabilities. Appointing these learners (interns) helped Armscor to reach the target for people living with disabilities.

Armscor continues making a difference in communities where it operates through the Corporate Social Investment projects. This national footprint is based on the projects implemented in the 2022/23 financial year. In total 23 projects were funded. The projects are grouped into three categories: Social Relief, Human Capital Development and Socio-Economic Upliftment.

Strategic Focus

Armscor continually reviews its strategic focus in order to enhance corporate governance. By mapping the global defence environment and positioning Armscor within that environment, the Armscor Strategy On-time, In-time - Towards a Sustainable Future was established. Enhancing Armscor's capabilities is an important thrust to ensure that the Corporation stays relevant and is able to meet the client's requirements on-time and in-time. The following strategic pillars are embedded in the Corporate Plan underpin Armscor's focus:

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

The strategy is based on its relevance and the sustainability of the Corporation, hence the focus on the commercialisation and expansion of Armscor's services to a wider client base and looking at opportunities for partnerships with other defence procurement authorities around the world. Armscor will continue to pursue commercial opportunities through government-to-government contracting, with an endeavour to generate income, develop and maintain long-lasting strategic relationships with key stakeholders. It is important to bear in mind that even with the commercialisation strategy, Armscor will continue supporting the SANDF in executing its mandate.

Strategic Partnerships

Stakeholder engagement, as one of Armscor's four strategic pillars, assists Armscor to maintain its position as a gateway to defence and security solutions, as well as to be the centre of technical excellence for defence acquisition and support services. Developing and maintaining long-lasting, strategic relationships with key stakeholders is of fundamental importance for Armscor.

During the reporting period, we strengthened our efforts on strategic partnerships locally and internationally cognisant that they are vital in enhancing our strategic capability. A network of key strategic relationships in the Defence and Research technology domains is of vital importance and a fundamental principle of sustainability.

WHO WE ARE

We have cemented our stakeholder environment and made concrete proposals to our shareholder on how best we can be of service, mindful of the fact that it is through mutual agreement and collaboration that we can achieve more and be greater than our individual parts.

Over and above serving our primary client, the DOD, Armscor is also mandated to support other government departments as per the Armscor Act. To this end, the service level agreement established between Armscor and the South African Police Services (SAPS) entails amongst others the acquisition and procurement services to achieve synergy across the Security Cluster Departments. The newest addition to South Africa's security architecture is the Border Management Authority (BMA). The national defence force will remain as the primary land border protector on a "whole of government approach" to border security. Ongoing projects include the disposal of obsolete landward and aeronautical platforms and other ancillaries. Through-life-cycle-support and maintenance management services on new and existing platforms are part of the offer to the SAPS to ensure service readiness in an efficient and effective manner. Armscor continues engaging various key stakeholders both locally and internationally on possible areas of collaboration. Strategic partnerships and collaborations with state agencies and broader industry at large are key to improving the situation within the defence industry and other government departments.

Challenges

Armscor has been experiencing an increasing pressure on its financial, human and infrastructure resources due to historical financial challenges, thus impacting on its sustainability. This is further exacerbated by the combined effect of rising operating costs, a declining fiscal allocation to the Department of Defence placing huge pressure on the DOD's operating and capital budgets. The reduction in the capital budget has placed the majority of the capital programmes at risk and hence, the need for Armscor to focus on retaining skills through diversifying its business model. More significant is the adverse impact on the ability of Armscor to ensure both organisational and capability modernisation, both required to ensure effective and efficient departmental service delivery and mandate execution as a core function of Armscor within a rapidly changing contextual environment.

Despite the funding challenges, Armscor still and will always remain committed to execute our legislative mandate with a high level of professionalism, commitment and dedication To this end, Armscor made optimal use of its allocation throughout the period under review. The net financial result from operations of the Group shows a surplus of R169,5m was realised, which was influenced by various factors as reflected in the financial report. Financial sustainability remains a key issue that management is faced with. We are proud of various cost curtailment measures that have been put in place to improve the financial position of the Corporation. This in time will bear fruits.

Africa Aerospace and Defence (AAD)

The Africa Aerospace and Defence (AAD) show made a successful return, after a four-year hiatus, to the international exhibition scene, under the theme: *"Exploring New Paths, Sharing Solutions, Showcasing Innovation and Capabilities"*. As Armscor, together with our partners, we are proud to have hosted the 11th edition of AAD; which was held on 21 - 25 September 2022 at Air Force Base Waterkloof.

We believe that the show provides a platform to display our capabilities, establish strategic relationships and position Armscor as a procurement partner of choice. This show plays a significant role in boosting the local industry players to market their products and services to International markets. Armscor strongly believes that all interactions and strategic partnerships established during this show advance the defence industry in a multitude of ways.

Through the AAD platform, Armscor is able to demonstrate its commitment to supporting the DOD and the defence related industry at large. AAD also allows Armscor 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 Armscor is able to acquire the best equipment on the market for the South African National Defence Force (SANDF) capability requirements.

Armscor is honoured to be the lead partner of this year's edition of Africa Aerospace and Defence Exhibition (AAD 2016). Together with our partners: Aerospace Defence and Maritime Industries Association of South Africa (AMD), Civil Aviation Association of Southern Africa (CAASA) and Department of Defence (DOD), we would like to welcome you to the largest AAD event scheduled for 18- 22 September 2024 at Air Force Base Waterkloof.

Defence Industry

Globally, governments are responsible for sovereign national security and protection of their citizens, in order to provide a stable base for sustainable economic and social development. Defence industries support governments in providing security and protection against the threat of war, violence and terrorism resulting from human conflict.

The period under review was exceptionally challenging for Armscor and the defence industry in general due to the adverse effect of the global economic crisis as well as the changing defence environment.

The period was also characterised by further developments and changes in the environment in which we operate and in the manner in which we will deliver our services.

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

In order for Armscor to maintain its position as a truly South African Corporation that is valued locally and globally, as well as to be the centre of technical excellence for defence acquisition and support services, it is vital that there be a close working relationship between Armscor, the DOD, industry, our clients and customers.

DOD's ability to perform its duties is directly linked to Armscor and the Defence Industry's ability to deliver its services and the protection of our sovereignty. As such, Armscor is proud of the achievements spearheaded with the support of our stakeholders and the establishment of the Defence Industry Fund as well as supporting the development of the Defence Sector Charter and Codes. The Enterprise and Supplier Development is administered through the Defence Sector Council to ensure compliance to the Charter and Codes.

Outlook

South Africa and nations across the globe are beginning to look beyond the COVID-19 pandemic and refocusing on economic growth and sustainability. While the pace and shape of the economic recovery in 2021 varied from country to country, businesses in general anticipated a gradual return to levels of pre-pandemic activity, albeit cautiously and with a keen eye on emerging variants of the coronavirus.

The COVID-19 pandemic is set to have serious global and local economic repercussions that will further batter the already fragile pre-COVID South African economy. Availability of government resources will be far more constrained.

We anticipate that global conditions will continue to be fluid. Such a state of affairs provides challenges, but it also provides good potential growth opportunities. The Board will continue to urge expansion into available markets while exercising the necessary caution.

Acknowledgements

My sincere appreciation to our Minister of Defence and Military Veterans, Ms Thandi Modise the Deputy Minister, Mr Thabang Makwetla for their most valuable support and guidance. A word of thanks is directed to the members of the Plenary Defence Staff Council for their support and willingness to assist in matters of departmental procedure. Our support and commitment can be assured.

Parliament's Portfolio Committee on Defence has contributed to the successful execution of our work. Its oversight role is appreciated.

A special thank you to the Board of Directors.

To the Executive Committee and staff, I would like to thank them for their contribution to Armscor's successes.

To have served Armscor's primary client, namely the DOD as a whole, is an honour and we thank them for their support and confidence in Armscor as a trusted service provider. Congratulations go to the South African Defence Industry for delivering quality defence equipment to the SA National Defence Force under very challenging circumstances. Thank you also to the defence-related industry, spearheaded by AMD, for having been part of the defence team of recorded successes.

Armscor looks forward to another year of improved performance and another term of great achievements.

It is my privilege to present Armscor's Annual Report for the 2022/23 financial year.

ADV. SOLOMZI PHINEAS MBADA
CHIEF EXECUTIVE OFFICER

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

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

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

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

Against this background the directors of Armscor accept responsibility for the financial statements. The information on pages 26 - 35, 81 - 93 and 119 - 197 was approved by the Armscor Board of Directors on 31 July 2023.

DR. PHILLIP DAVID DEXTER
CHAIRPERSON OF THE BOARD

ADV. SOLOMZI PHINEAS MBADA
CHIEF EXECUTIVE OFFICER

CERTIFICATE

In terms of Section 88 (2) (e) of the Companies Act (Act No. 71 of 2008) (as amended), (the Act), it is hereby certified that for the year ended 31 March 2023, the Armaments Corporation of South Africa SOC Limited lodged with the Commissioner all required returns and notices in terms of the Act and that all such returns and notices appear to be true, correct and up to date.

ADV. SELAELO PORTIA MATSANE
COMPANY SECRETARY

WHO WE ARE

1.6 ABOUT ARMSCOR

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

Armscor is a State-Owned Company (SOC) as contemplated in the Companies Act (Act No. 71 of 2008). The Executive Authority for Armscor is the Minister of Defence and Military Veterans, who represents the Shareholder. Armscor is governed and controlled by a Board of Directors, which reports to the Minister of Defence and Military Veterans.

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

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

Armscor is committed to driving creativity and innovation in collaboration with its strategic partners. The Corporation provides marketing support to the South African Defence Industry (SADI).

1.7 STRATEGIC OVERVIEW

The Vision and Mission statements of Armscor are succinctly captured as Figure 1, clearly defining the intent of the Corporation.

Figure 1: Armscor's Vision and Mission Statements

VISION

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

MISSION

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

VALUES

Armscor's values in Figure 2 are its building blocks, guiding conduct and manner of business. The Corporation is commited to a healthy and productive environment, it strives to continuously cultivate a culture of high ethical standards, promoting transformation, transparency and accountability.

Figure 2: Armscor's Value System

1.8 LEGISLATIVE AND ARMSCOR'S MANDATE

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), as amended (called the Armscor Act). It is therefore a SOC as contemplated in the Companies Act, 2008. Furthermore, it is listed as a schedule 2 public entity in terms of the Public Finance Management Act (Act No. 1 of 1999), as amended (the PFMA). It is further regulated by the regulations issued in terms of the PFMA and those of the Companies Act, 2008.

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

The objectives of Armscor are to meet:

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

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

(1) The Corporation must:

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

(2) The Corporation may, with the approval of the Minister of Defence and Military Veterans:

- exploit such commercial opportunities as may arise out of Armscor's duty to acquire defence matériel or to manage technology projects; and
- procure commercial matériel on behalf of any organ of state, at the request of the organ of state in question.

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

1.9 ARMSCOR'S CONTRIBUTION TO NATIONAL IMPERATIVES OF GOVERNMENT

1.9.1 National Development Plan, Vision 2030

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

Furthermore, the NDP, Vision 2030 and its related policies provide a national framework that informs the envisaged contribution by National Departments to NDP, Vision 2030 objectives. Figure 3 indicates the aspects that form the cornerstone of the NDP, Vision 2030 to which the defence portfolio, where relevant, will contribute.

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

- Sharpening South Africa's innovative edge by continuing its contribution to global scientific and technological advancement.
- Implementing greater investment in research and development and better use of existing resources.
- Facilitating innovation and enhanced co-operation between public service and technology institutions.
- Committing to procurement approaches that stimulate domestic industry and job creation.
- Procuring from and supporting SMMEs, black-owned and black-managed enterprises, and female-led enterprises, the youth, and military veterans.

The Strategy is, therefore, informed by:

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

Figure 3: Aspects that form the cornerstone of the NDP, Vision 2030

1.9.2 Sustainable Development Goals

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

- Armscor, by virtue of its legislative mandate and inherent defence capabilities, will indirectly support SDG 16. The Corporation aims to "Promote peaceful and inclusive societies for sustainable development" and "provide access to justice for all, and build effective, accountable and inclusive institutions at all levels" into the future trajectory of defence. Armscor will also participate in the work established by Stats SA by providing statistics of the SDGs as and when required, and through its mandate and inherent acquisition and procurement capabilities.
- Armscor, because of its mandate, will indirectly support selected SDGs into the future trajectory of defence. Armscor supports Goal 4 by granting bursaries and donations to schools of previously disadvantaged communities, as well as Goal 5 by adhering to its Employment Equity (EE) Policy, whereby Armscor aims to grant 23 bursaries per year.
- Corporate Governance is enshrined in the King IV Report on Corporate Governance for South Africa. Armscor embraces the principles in this report and continues to strengthen its departmental role and function in the governance, risk and compliance functions through ethics and integrity.
- The implementation of the Public Service Integrity Management Framework in all government departments also informs Armscor's Code of Conduct. The approved Armscor's Code of Conduct demonstrates its commitment to the highest ethics and integrity aspirations. Armscor also has the mechanisms, as stated below, to facilitate ethical execution of its mandate through:

    - The Audit and Risk Committee.
    - The Risk Management Register, which also lists actions to mitigate risks.
    - Regularly conducted internal audits, of divisions and internal controls.
    - Continuous management of issues relating to corruption and fraud, ranging from awareness training to the structured reporting of incidents through the "whistle-blowing" mechanism and other established departmental channels.
    - Continuously refined organisational financial processes, systems, and policies, with the view to ensure alignment with the Public Finance Management Regulatory Framework, in order to improve service delivery.

Figure 4: Sustainable Development Goals

1.10 ARMSCOR'S STRATEGY

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

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

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

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

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

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

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

1.11 KEY STRATEGIC OUTPUTS

Armscor focuses on four specific strategic areas:

Revenue Generation

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

Cost Management

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

Effective and Efficient Delivery

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

Stakeholder Management

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

1.12 ARMSCOR'S CONTRIBUTION TO NDP, VISION 2030, SUSTAINABLE DEVELOPMENT GOALS (SDGs) AND AU AGENDA 2063

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

Figure 5: NDP, Vision 2030, SDG and AU agenda 2063

The 17 SDGs, developed to support the United Nations 2030 Agenda, are aimed overall at ending poverty and inequality, protecting the planet, and ensuring peace and prosperity for all. Goals 4, 5 and 16 are indirectly supported by Armscor.

The African Union's (AU) Agenda 2063 is a blueprint and master plan for transforming Africa into the global powerhouse of the future. The aim of the strategic framework is to effect socio-economic transformation of the continent over the next 50 years. It was adopted by the AU Summit in January 2015. The African Continental Free Trade Area Agreement (CFTA) that came into force on 30 May 2019, is a flagship project of Agenda 2063. CFTA is a treaty between consenting countries whereby a free trade area is constituted that allows member countries to conduct trade with each other without tariffs or other hindrances.

1.13 ARMSCOR'S STAKEHOLDERS

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

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

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

WHO WE ARE

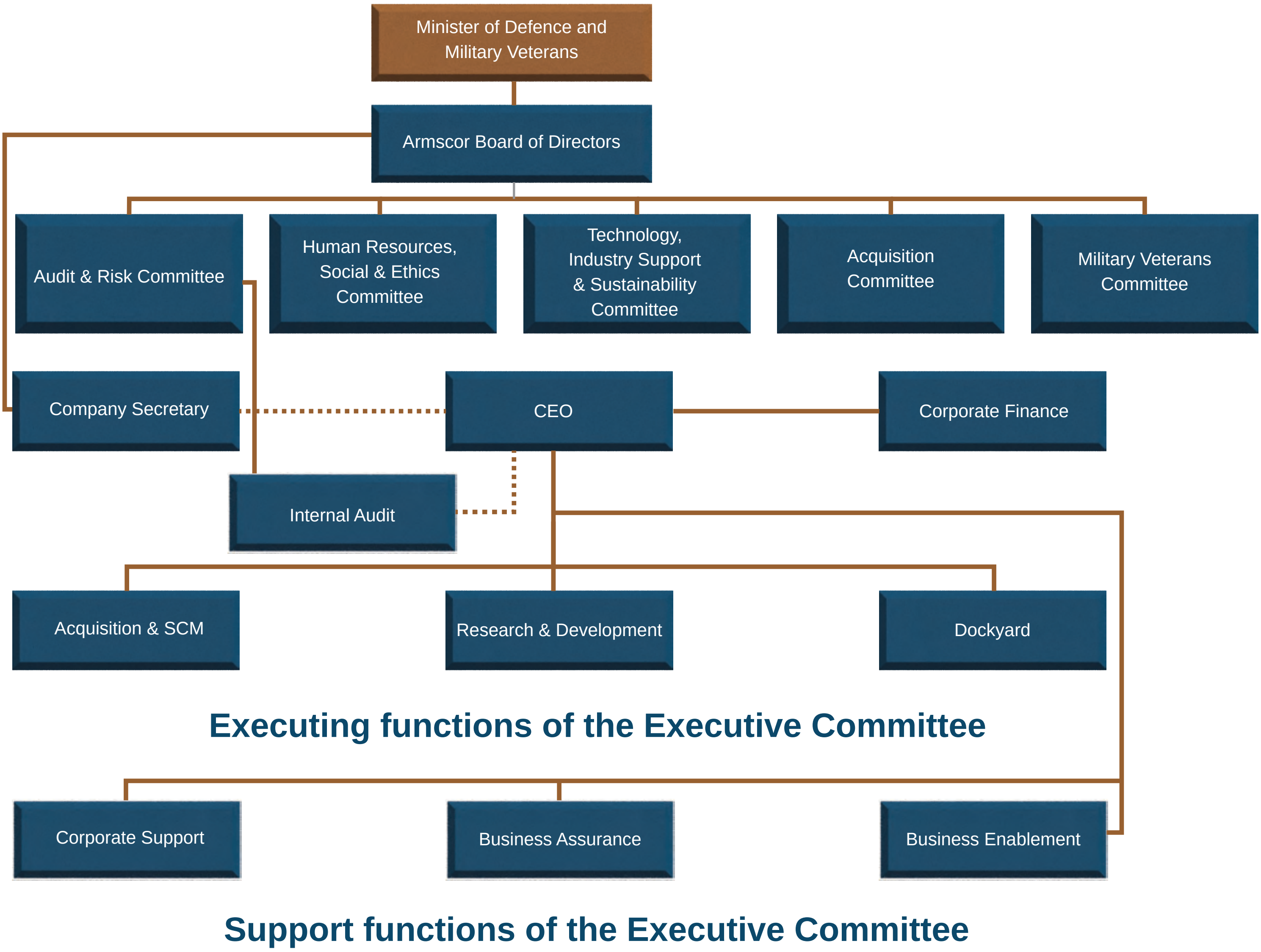
Table 1: Armscor's Stakeholder List

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

WHO WE ARE

1.14 ORGANISATIONAL STRUCTURE

Figure 6: Armscor/DOD Organisational Structure



WHO WE ARE

1.15 BOARD MEMBERS

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

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

BOARD OF DIRECTORS

Non-Executive members:

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

WHO WE ARE

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

Name:	**Dr Reginald Cassius Lubisi [1]**
Gender:	Male
Race:	African
Academic Qualifications:	Doctor of Philosophy Bachelor of Science Bachelor of Education Higher Diploma in Education
Areas of Expertise:	Project Management Strategic Management
Position on Armscor Board:	Non-Executive Director of the Board Chairperson of the Technology, Industry Support and Sustainability Committee Member of the Audit and Risk Committee
Appointment Date:	1 December 2020
Directorships:	HSRC – Board Chairperson Maziwa Holdings ThemoPharm

Name:	**Ms Refilwe Matenche [2]**
Gender:	Female
Race:	African
Academic Qualifications:	CA (SA) Bachelor of Accounting
Areas of Expertise:	Financial Management Taxation Auditing Strategy Gender transformation
Position on Armscor Board:	Non-Executive Director of the Board Chairperson of the Audit and Risk Committee Member of the Human Resources, Social and Ethics Committee
Appointment Date:	1 December 2020
Directorships:	South African Institute of Chartered Accountants (SAICA) Social Housing Regulatory Authority (SHRA) Commission for Gender Equality (CGE - Chairperson of Audit and Risk)

Note: [1 & 2] Resigned

WHO WE ARE

Name:	**Ms Fundiswa Barbara Skweyiya-Gushu**
Gender:	Female
Race:	African
Academic Qualifications:	Masters in International Political Communications Post Graduate Diploma in Government, Communication and Marketing Fellowship on Democracy and the Rule of Law Stanford University
Areas of Expertise:	Communications and Marketing Campaigning Research Project Management Media Relations Public Diplomacy Democracy and the Rule of Law
Position on Armscor Board:	Non-Executive Director of the Board Member of the Audit and Risk Committee Member of the Technology, Industry Support and Sustainability Committee Chairperson of the Military Veterans Committee
Appointment Date:	1 December 2020
Directorships:	None

Name:	**Mr Thimothy Mandla Sukazi**
Gender:	Male
Race:	African
Academic Qualifications:	LLM (UCT) LLB (UNISA) B. Proc. (UNISA)
Areas of Expertise:	General Corporate and Commercial Law Mergers and Acquisitions Capital Markets and Securities Law Commercial Litigation Sports and Entertainment Law Banking and Finance Law Insurance Law Corporate Restructure Public and Regulatory Law Social Security Law Tax Law
Position on Armscor Board:	Non-Executive Director of the Board Chairperson of the Acquisition Committee Member of the Audit and Risk Committee
Appointment Date:	1 December 2020
Directorships:	Independent Development Trust

WHO WE ARE

Name:	**Ms Peta Nonceba Mashinini**
Gender:	Female
Race:	African
Academic Qualifications:	Master's in Business Administration Executive Management Development Programme Post Graduate Diploma in Human Resources Project Management
Areas of Expertise:	Corporate Services Strategy Human Resources Transformation Performance Management Operations Management Governance Ethics Financial Management Acquisition Advisory
Position on Armscor Board:	Non-Executive Director of the Board Chairperson of the Human Resources, Social and Ethics Committee Member of the Acquisition Committee
Appointment Date:	1 December 2020
Directorships:	Thebe Investment Corporation

Executive members:	Adv. Solomzi Phineas Mbada Mr Jacobus Gerhardus Grobler

Note: For details, refer to Armscor's Executive Committee Abridged Curriculum Vitae

Company Secretary:

Name:	**Adv. Selaelo Portia Matsane**
Gender:	Female
Race:	African
Academic Qualifications:	LLB B Juris
Areas of Expertise:	Law Governance Strategic Leadership and Management
Appointment Date:	2 January 2023
Position on Armscor Board:	Company Secretary
Directorships:	None

1.16 EXECUTIVE MANAGEMENT

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

In undertaking these responsibilities, the CEO is supported by an executive management structure, called the Executive Committee. All Business Units are represented at this level.

Name:	**Adv. Solomzi Phineas Mbada** **Chief Executive Officer**
Gender:	Male
Race:	African
Academic Qualifications:	LLM BA (Hons) B Juris LLB MAP
Areas of Expertise:	Strategic Management Business Restructuring Mediation / Negotiation Change Management Organisational Dynamics / Psychology
Appointment Date:	1 September 2009
Position on Executive Committee:	Chief Executive Officer
Position on Armscor Board:	Executive Director of the Board
Directorships:	Armscor Defence Institutes (Pty) Ltd *(Dormant)* Erasmusrand Properties (Pty) Ltd *(Dormant)* Sportrand (Pty) Ltd *(Dormant)* Oospark (Pty) Ltd *(Dormant)*

Name:	**Mr Jacobus Gerhardus Grobler** **Chief Financial Officer**
Gender:	Male
Race:	White
Academic Qualifications:	CA (SA) MBL MCom (Tax)
Areas of Expertise:	Financial Management Corporate Governance
Appointment Date:	1 July 1990
Position on Executive Committee:	Chief Financial Officer
Position on Armscor Board:	Executive Director of the Board
Directorships:	Armscor Defence Institutes (Pty) Ltd *(Dormant)* Erasmusrand Properties (Pty) Ltd *(Dormant)* Sportrand (Pty) Ltd *(Dormant)* Oospark (Pty) Ltd *(Dormant)*

WHO WE ARE

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

Name:	**Dr. Noel Mkhululi Mkaza**
Gender:	Male
Race:	African
Academic Qualifications:	PhD (Nuclear Physics) MBA MSc (Materials Science) BSc (Education) BSc (Hons) Post Graduate Diploma in Electrical Engineering
Areas of Expertise:	Coaching Emotional Intelligence Strategic Leadership and Management Management in the Science and Technology Environment
Appointment Date:	1 June 2016
Position on Executive Committee:	Group Executive: Research and Development

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

Name:	**Ms Qhinaphi Sitsila**
Gender:	Female
Race:	African
Academic Qualifications:	Master of Business Administration (MBA) BBA LLB Risk Management Diploma
Areas of Expertise:	Governance, Risk and Compliance Enterprise Risk Management Legal Strategic Leadership and Management
Appointment Date:	1 July 2022
Position on Executive Committee:	Acting Group Executive: Business Assurance

WHO WE ARE

Name:	**Ms Segomotso Angela Tire**
Gender:	Female
Race:	African
Academic Qualifications:	MEng BSc (Biological Science) BEng (Electronics) Executive Leadership Programme
Areas of Expertise:	Strategic Leadership and Management Stakeholder Management Business Intelligence Business Development Engineering Management Digital Transformation
Appointment Date:	1 August 2022
Position on Executive Committee:	Executive Manager: Business Enablement

Name:	**Mr Mpho Peecha**
Gender:	Male
Race:	African
Academic Qualifications:	Master of Business Leadership (MBL) B Tech Degree Engineering – Metallurgy Executive Development Programme Graduate Diploma in Management
Areas of Expertise:	Engineering Corporate Compliance Arms control Organisational Transformation
Appointment Date:	1 February 2007
Position on Executive Committee:	Acting Executive Manager: Dockyard

PART B:

PERFORMANCE INFORMATION

GATEWAY TO DEFENCE SOLUTIONS

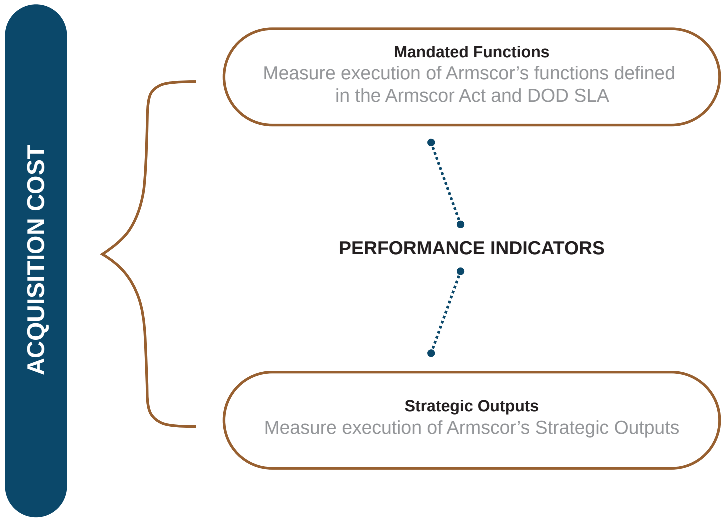
ARMSCOR

Armaments Corporation of South Africa SOC Ltd

2.1 PERFORMANCE AGAINST GOALS 2022/23

Operational outputs for the 2022/23 financial year

Armscor's Corporate Plan defines two categories of performance indicators. The first category addresses performance indicators that measure the execution of Armscor's functions as defined in the Armscor Act and as agreed on in the SLA with the DOD. The second category measures the attainment of the strategic outputs of the Corporation.



Performance against Outputs

In addition, 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 (i.e. industry can deliver as contracted) during the reporting period based on the total forecasted acquisition activities (revised baseline).

2.1.1 PERFORMANCE INDICATOR: ACQUISITION COST

A cost of 8,53% was budgeted for the 2022/23 financial year taking into consideration the baseline for contracting and the agreed performance requirement to commit 95% thereof while contractual payments should be 95% of the committed amount.

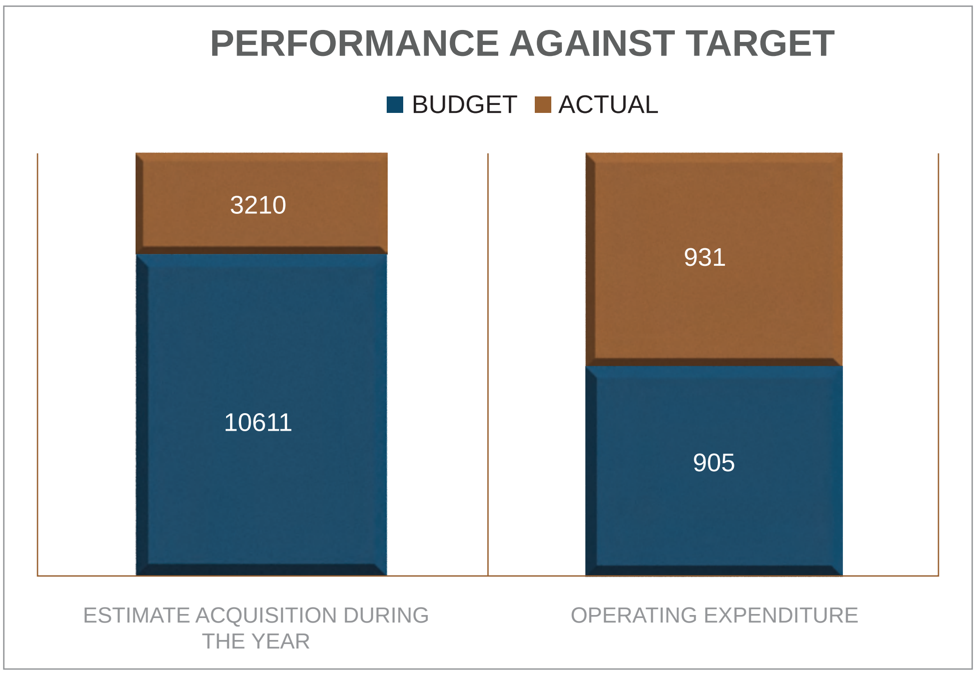
Table 2: Acquisition Cost

Acquisition cost:	2022/23	2021/22	2020/21
Budgeted acquisition cost based on calculated cash flow:	8,53%	8,30%	8,71%
Acquisition cost based on actual cash flow:	29,0%	23,16%	17,49%

***Note:** Budgeted figure was a result of lower actual expenditure due to reasons as stated in the performance measurement.*

The actual operating expenditure of R930,9m represents a 2,83% increase from the budgeted operating expenditure of R905,3m (Figure 7). This is mainly due to the higher debt impairment in the current financial year. The acquisition cost was similar to previous financial years, significantly influenced by the industry's non-ability to execute the contracted work order for cash flow to take place.

Figure 7: Performance Against Target



PERFORMANCE INFORMATION

2.1.2 PERFORMANCE INDICATOR: MANDATED FUNCTIONS (SLA)

Figure 8 summarises the SLA outputs as per approved Corporate Plan (Tabled on 09 March 2022), with performance against the SLA Outputs presented in Table 4:

Figure 8: Service Level Agreement Outputs

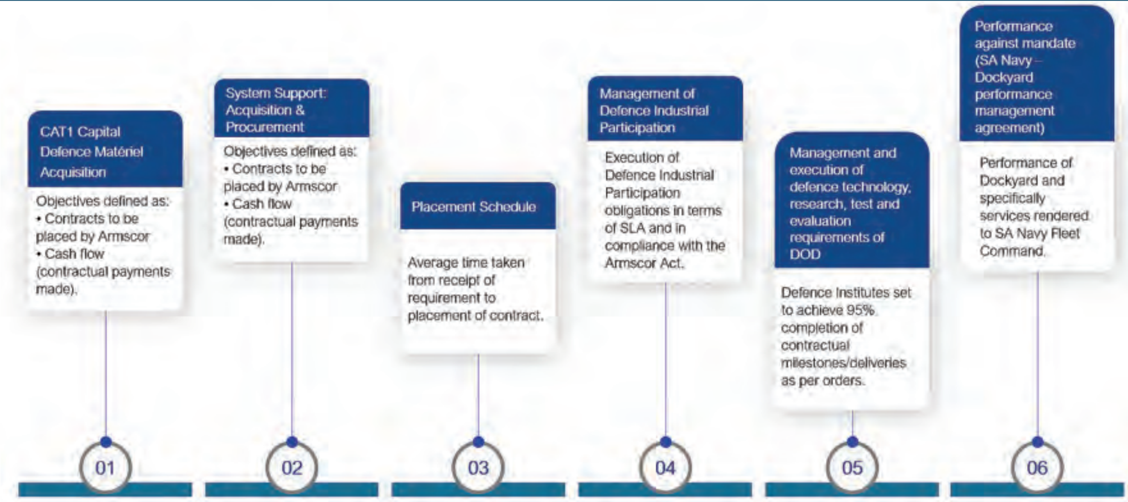


Table 3: Summary Armscor Performance against the Service Level Agreement Outputs

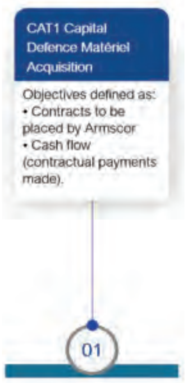
GOAL	OUTPUT DESCRIPTION	SUB-GOAL	OUTPUT INDICATOR
Goal 1	Cat 1 capital defence matériel acquisition excluding strategic defence acquisition but including technology acquisition	• Contracts to be placed by Armscor • Cash flow (contractual payments made)	Armscor's target of 95% of commitment of funds to be measured against the formally planned value of commitments, which is based on requirements received and confirmed as valid requirements from the DOD. 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	• Contracts to be placed by Armscor • Cash flow (contractual payments made)	Armscor's target of 95% of commitment of funds to be measured against the formally planned value of commitments, which is based on requirements received and confirmed as valid requirements from the DOD. 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	• Average time taken	Target set to measure the average time taken from receipt of requirement to placement of contract.
Goal 4	Management of Defence Industrial Participation (DIP)	• Value of DIP credits granted	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	• Execution of technology requirements	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)	• SA Navy Dockyard performance manegement in terms of SLA with SA Navy	The target set to measure the performance of the Dockyard and more specifically the services rendered to the SA Navy Fleet Command.

PERFORMANCE INFORMATION

Armscor Performance against the Service Level Agreement (Mandated Function)

Table 4: Performance against the Service Level Agreement Goals

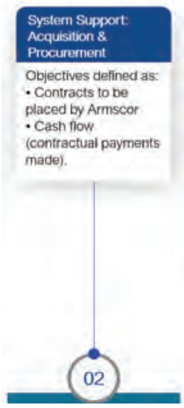
Goal 1: Category 1 capital defence matériel acquisition excluding strategic defence acquisition but including technology acquisition



Output description (Projects)	*Annual target 2022/23*	*Achievement against target*	*Performance against output*
1.1 Percentage of DOD Capital requirements converted into orders placed. Capital requirements will be registered upon approval of the Project Study Report by the DOD and the Functional Baseline by Armscor, and confirmation by the DOD of funds availability. (Target set to measure the actual commitment of funds against the formally planned value of commitments, which is based on requirements received and confirmed as valid 3A requirements from the DOD).	95%	100%	DOD requirements to the value of R365,06m were received. Armscor committed R365,06m of the above mentioned funds resulting in an achievement of 100%. ***Target exceeded.***
1.2 Execution of contracts as measured through actual cash flow on DOD orders placed. (Actual cash flow will be measured against planned cash flow, in terms of first revision, and adjusted for factors beyond Armscor's control. Any adjustment deemed to be beyond Armscor's control that is due to the user or the DOD will be done with the consent of the DOD).	95%	107,36%	The planned cash flow in terms of the first revision was R1,557bn. Armscor managed to realise cash flow to the value of R1,138bn resulting in an achievement of 73,12%. Adjustments for factors beyond Armscor's control amounted to R496,61m. This resulted in a final achievement of 107,36%. ***Target exceeded.***

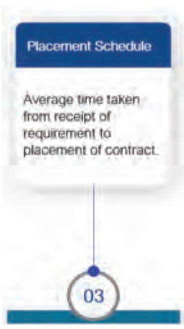
PERFORMANCE INFORMATION

Goal 2: System support: Acquisition and procurement



Output description (Operational funds)	*Annual target 2022/23*	*Achievement against target*	*Performance against output*
2.1 Percentage of DOD system support and procurement requirements converted into orders placed including: • receipt of requirement; • assessment and confirmation of requirement; • submission of a top-level project schedule (Planning Document) to DMD within 14 working days; • initiation of sourcing solution; and • approval and placement of order. (Target set to measure the actual commitment of funds against the formally planned value of commitments, which is based on requirements received and confirmed as valid requirements from the DOD).	95%	90,03%	DOD requirements to the value of R997,30m were received. Armscor committed R978,77m of the above mentioned funds resulting in an achievement of 90,03%. Two of the orders received funding from the DOD after the system closed for the financial year, and one order was ready to be placed in the third quarter, but only received funding from the DOD at the end of the financial year. ***Target not achieved.***
2.2 Execution of contracts as measured through actual cash flow on DOD orders placed. (Actual cash flow will be measured against planned cash flow, in terms of first revision, and adjusted for factors beyond Armscor's control that is due to the user or the DOD will be done with the consent of the DOD).	95%	101,67%	The planned cash flow in terms of the first revision was R3,167bn. Armscor managed to realise cash flow to the value of R2,071bn resulting in an achievement of 65,39%. Adjustments for factors beyond Armscor's control amounted to R1,130bn. This resulted in a final achievement of 101,67%. ***Target exceeded.***

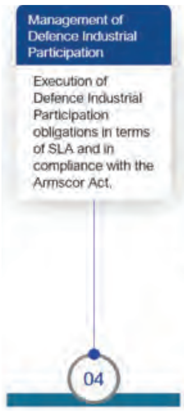
Goal 3: Schedule placement



Output description	*Annual target 2022/23*	*Achievement against target*	*Performance against output*
3.1 Average time taken to convert DOD requirements into orders including: • Confirmation of requirement. • Completion of sourcing process. • Approval and placement of order. (Time taken from registration of requirement (3A) to placement of contract).	90 days for shortened process COTS items.	86	An average of 86 days taken from receipt of requirement to placement of a contract. ***Target exceeded.***
	120 days for non-COTS and Product Support GDA procurement.	98	An average of 98 days taken from receipt of requirement to placement of a contract. ***Target exceeded.***
	140 days for SDA acquisition programmes.	107	An average of 107 days taken from receipt of requirement to placement of a contract. ***Target exceeded.***

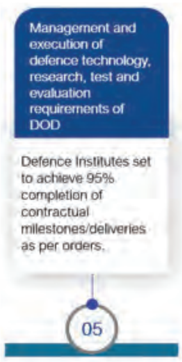
Goal 4: Management of Defence Industrial Participation (DIP)

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 output for Armscor, and the target is reflected in the following table:



Output description	*Annual target 2022/23*	*Achievement against target*	*Performance against output*
4.1 Value of DIP credits to be granted to overseas suppliers.	R111,31m	R26,62m	DIP credits to the total value of R26,62m have been awarded during the 2022/23 financial year. ***Target not achieved.***

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



Output description	*Annual target 2022/23*	*Achievement against target*	*Performance against output*
5.1 Percentage of execution of technology requirements. (Armscor Research & Development to achieve contractual milestones / deliveries as per agreed Memoranda of Agreement and orders received for the financial year).	95%	51,68%	DOD orders to the value of R184 136 322 have been awarded during the 2022/23 financial year. Amount invoiced: R95 160 609 and executed during the year. The performance was due mainly to the orders on the R&D divisions being placed late in the Financial Year (2022/23). As a result, there was insufficient time for the R&D Divisions to execute all the contracted work and invoice within the 2022/23 financial year. ***Target not achieved.***

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

Output description (Projects)	*Annual target 2022/23*	*Achievement against target*	*Performance against output*
6.1 Percentage of contractual milestones executed. (Adherence to project contractual milestone planned dates as approved in project plan.)	90%	94%	Measurement is for projects taken (average) on by the Dockyard in accordance with available resources and under full Dockyard management control. Work conducted on the following vessels were signed off by the SA Navy: • SAS MANTANTISI DED 2021 • ADHOC Activities There were no opportunities to perform on the following vessels: • SAS AMATOLA DED 2020 • SAS CHARLOTE MAXEKE REFIT Major limitation factors for project execution and the main challenge still remains the limitation in availability of: • Spares and materials, • Certain enablers and • Unplanned maintenance and repairs activities ***Target exceeded.***
6.2 Percentage of compliance to project finance. Manage project finances in accordance with approved financial authorities and cash flow plan	90%	75%	This resulted from non-spending of the special project FA approved in October 2022. R1,2m was committed as at 31 March 2023. • Repairs and Maintenance & Repairs 96% (R11,5m vs R10,8m). • Manufacturing of SAN Boat Trailers (special projects) 0% (R2,8m budget vs R0 spent) ***Target not achieved***.
6.3 Percentage of Ancillary Services executed. (Provision of Ancillary Services as defined by SA Navy (power generation station, air supply, water supply, carnage support requirements, etc.) as per Dockyard funded business plan.)	95%	99,4%	Ancillary Services were delivered and signed off by the SA Navy. ***Target exceeded***.
6.4 Percentage of training requests executed. (Training provided in accordance with the plan and requirements submitted by the SA Navy during the reporting period.)	100%	100%	Training requirements requested were provided and signed off by the SA Navy. ***Target achieved.***
6.5 Percentage compliance with quarterly report timelines. (Supply quarterly reports to Fleet Officer Flag that address-es inter-alia project perfor-mance status, financial statements, risks with mitigating plans, capabilities, facilities and ancillary services status reporting as per reporting timeline schedule.)	100%	100%	All quarterly reports submitted to Flag Officer Fleet on or prior to delivery date and signed off by the SA Navy. ***Target achieved.***

2.1.3 Performance Indicator: Strategic Outputs

Armscor focuses on four specific areas (Figure 9), a clear expression of its strategic intent and output. Table 5 summarises Armscor's performance on its strategic key area:

Figure 9: Strategic Outputs

REVENUE GENERATION

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

01

COST MANAGEMENT

Strategic capability mainte-nance, "while reducing costs", to ensure that Armscor remains sustainable to meet its funding needs in the near-to-medium term.

02

EFFICIENT & EFFECTIVE DELIVERY

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

03

STAKEHOLDER MANAGEMENT

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

04

Table 5: Summary of Armscor Performance against the Strategic Outputs

OUTPUT	OUTPUT DESCRIPTION	TOOLS	OUTPUT INDICATOR
Revenue generation	Generate additional realisable revenue	• Leverage Strenghts • Commercialise IP • Diversify client base	Increase in net realisable revenue to ensure that Armscor generates sufficient income to meet its funding needs in the short-to-medium term.
Cost management	Strategic maintenance and reduction of capital and operating costs	• Implement cost containment measures	Strategic capability maintenance, "while reducing costs", to ensure that Armscor remains sustainable to meet its funding needs in the near-to-medium term.
Efficient & effective delivery	Effective Technology and IP Management, as well as Infrastructure Renewal	• Reduced turnaround times • Implement ERP solution	Reducing the turnaround time of core customer-facing and internal processes, thereby strengthening stakeholder relationships.
Stakeholder management	Stakeholder Engagement Strategy and Transformation of Corporation	• Communication engangements • Transformation	Developing and maintaining long-lasting, strategic relationships with key stakeholders.

Table 6: Performance against Armscor Strategic Outputs

Performance against the approved Armscor Strategic Outputs are stated below.

Strategic Output 1: Revenue Generation

No.	Output description	Annual target 2022/23	Achievement against target	Performance against output
1.1	**Generate additional realisable revenue**			
1.1.1	Group Revenue (transfer payment, other income, and finance income).	R1 401,9m	R1 476,6m	A total group revenue of R1 476,6m was received. ***Target exceeded.***
1.1.2	Revenue from existing facilities of Armscor R&D.	R206,5m	R269,9m	Total income generated (excluding Transfer Payment): R269,9m. ***Target exceeded.***
1.1.3	Revenue generated from the Business Enablement Business Unit.	R31,4m	R38,7m	Total revenue of R38,7m was realised. ***Target exceeded.***

Strategic Output 2: Cost Management

No.	Output description	Annual target 2022/23	Achievement against target	Performance against output
2.1	**Strategic maintenance and reduction of capital and operating costs**			
2.1.1	Improve net financial position.	R16,1m deficit	R168m surplus	Surplus of R168m was realised. ***Target exceeded.***

Strategic Output 3: Efficient and Effective Delivery

No.	Output description	Annual target 2022/23	Achievement against target	Performance against output
3.1	**Effective Technology and IP Management**			
3.1.1	Development and Test Services: Percentage compliance with DOD contracted work, in accordance with SLA between Armscor and DOD.	90%	99%	Orders placed: Budgeted target: R753,779m Orders placed: R746,168m Achievement 99% ***Target exceeded.***
3.1.2	Completion of IP requests in terms of Armscor process.	80%	100%	Two requests for IP exploitation were received and were processed. ***Target exceeded.***

Strategic Output 3: Efficient and Effective Delivery

No.	Output description	Annual target 2022/23	Achievement against target	Performance against output
3.1.3	Maintain a complete and comprehensive IP Register, which ensures the maintenance of an unqualified audit opinion, in respect of Armscor and DOD Intangible Capital Assets under Armscor's management.	31 March 2023	31 March 2023	Complete and comprehensive IP register maintained. ***Target achieved.***
3.1.4	Commercialise one IP Technology (provided that there is an Armscor owned IP that is already at Technology Readiness Level 9 and can be commercialised).	31 March 2023	27 January 2023	The approval to commercialise two IP Technology were obtained during the following period: • 2 December 2022. • 27 January 2023. ***Target exceeded.***
3.2	**Infrastructure Renewal**			
3.2.1	Renew application systems to improve effectiveness and efficiency: • Appoint an ERP Service Provider.	31 March 2023	-	The due date for order placement was not achieved. The ERP Request for Bid (RFB) was advertised on 17 March 2023 and is now closed. Delay due to Supreme Court decision about procurement regulations. The clarification of legal issues about the applicable procurement regulations and policy resulted in a delay. ***Target not achieved.***
	• Implementation of the approved application system renewal plan.	80%	0%	The implementation of the ERP is dependent on the successful appointment of the ERP service provider. ***No opportunity to perform.***
	• Implement IT infrastructure Renewal in line with Business Continuity Plan in times of crises.	31 March 2023	22 March 2023	The UCS was procured and commissioned. The implementation was signed off on 22 March 2023. ***Target achieved.***
3.2.2	Improve Cybersecurity Capability: 80% Implementation of the annually approved Cybersecurity Capability Implementation plan.	31 March 2023	31 March 2023	The AGSA findings, internal audit findings and tasks of the maturity implementation plan were partially addressed as follows as at 31 March 2023: - 70% in addressing AGSA findings. - 100% in addressing internal audit findings. - 71% on the tasks of the maturity implementation plan. 80,3% has been achieved for the implementation of the approved Cybersecurity Capability Implementation Plan. ***Target achieved.***

PERFORMANCE INFORMATION

Strategic Output 4: Stakeholder Management				
No.	***Output description***	***Annual target 2022/23***	***Achievement against target***	***Performance against output***
4.1	**Stakeholder Engagement Strategy**			
4.1.1	Stakeholder Survey (conducted every second year).	1% improvement	0.1% decline	Stakeholders' satisfaction is rated 7,2. for the 2022/23 financial year. This is 0,1% decline as compared to the 7,3 of 2020/21 financial year. ***Target not achieved.***
4.1.2	Employee engagement survey (conducted every third year): % implementation of identified interventions based on 2020/21 survey.	60%	89,89%	89,89% of identified interventions based on 2020/21 survey have been implemented. ***Target exceeded.***
4.2	**Transformation of Corporation**			
4.2.1	Achievement of approved Equity Plan that is directed towards: • increasing black representation, and	83%	88,06%	Overall, black representation totals 88,06%. ***Target exceeded.***
	• improving female representation (overall).	40%	40,76%	Overall, female representation totals 40,76%. ***Target achieved.***
4.2.2	Controllable staff turnover in technical positions, excluding retirements (less than or equal to 4%).	≤4%	4,66%	There were 25 (out of 536 technical positions) resignations during the reporting period. ***Target not achieved.***
4.2.3	Skills Development Programme: • Provision of bursaries for full-time studies (Cumulative number)	23	38	38 students were enrolled on the Armscor Bursary Scheme as at 31 March 2023. ***Target exceeded.***
	• Contracting and development of graduate as interns i.e. Talent Development Programme (Cumulative number).	30	32	32 candidates were appointed into the Talent Development Programme. ***Target exceeded.***
4.2.4	Succession Planning Development: Percentage compliance with Succession Planning Development (key identified positions).	80%	80,53%	80,53% compliance with the development plans as contracted with successors. ***Target achieved.***
4.2.5	Total number of people with disabilities.	28	30	The total number of people with disability appoint-ed amounts to 30. ***Target exceeded.***

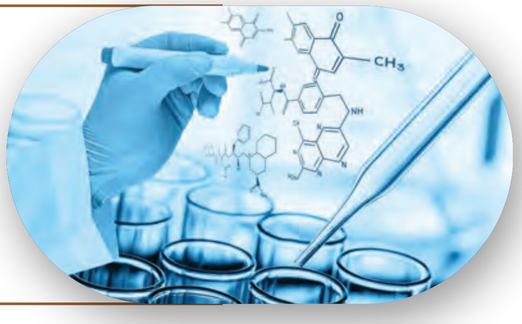
2.2 CORE CAPABILITY FUNCTIONS

Armscor focuses on providing defence turnkey solutions, undergirded by a strong research and development capability focused on producing relevant, sustainable and technologically-advanced products to meet evolving industry needs. Its technologies have evolved from the defence sector to serve both the commercial and domestic sectors. Armscor's core functions are captured as:

CORE FUNCTIONS

AQCUISITON & SCM

RESEARCH & DEVELOPMENT



NAVAL DOCKYARD

2.3 OPERATIONAL REVIEW

2.3.1 ACQUISITION

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

The acquisition role of Armscor entails a standard value chain process, actions taken to satisfy the need for defence matériel or services intended for use in meeting or in support of client requirements. This includes the design, development and production of new products and products systems, upgrading of existing systems to mitigate obsolescence or to meet evolving requirements, as well as the acquisition of product system support for user systems during the operational lifetime of the systems.

a. Responsibilities of Acquisition Functions

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

Capital equipment acquisition entails projects or programmes that are aimed at the development and production of complex systems that meet the stated capability requirements of the SANDF. During the execution of these development projects a formal risk-reduction process is followed, which eventually leads to the contracting of suitable suppliers to develop, industrialise and manufacture the products or product systems. Procurement entails the procurement of goods and services from industry in response to taskings from the respective Services and Divisions of the DOD. Product support activities entails the contracting of industry to maintain and support existing products systems of the DOD, and these activities are performed in response to taskings from the respective users within the SANDF.

Figure 10: Responsibility of Acquisition Function

	Capital Acquisition	Operating Procurement
Definition	Projects focused on technology development, directed systems development and production of new defence matériel	Maintenance and support for existing equipment and systems
Funded By	Special Defence Account	General Defence Account
Focus	• Projects or programmes aimed at the development and production of complex systems to meet SANDF capability requirements. • Contracting of suitable suppliers to develop,industrialise and manufacture.	• Procurement of goods/services from industry in response to SANDF needs. • Product support activities entails contracting industry to maintain and support existing products/systems of the DOD.

b. Performance Overview of Acquision Function

During the reporting period, Armscor managed and executed contracts to a total order value of R17.22 billion. The total acquisition and procurement portfolio comprises of two primary components, being technology and capital acquisition contracts which amounted to R13.129 billion. While maintenance and support contracts which amounted to R4.091 billion, as reflected in Figure 11.

Figure 11: Acquisition Function Total Value of Contracts

Period			
2022/23	R17.22 billion total order value	R13.129 billion tech. & CA contracts	R4.091 billion maintenance and support contracts

c. Status and Progress

The funding allocation for projects on the Special Defence Account (Capital Budget) has been continually decreasing over the past four years. Although the capital acquisition portfolio appears to be relatively high, the bulk of this portfolio (R10.402 billion) comprises multi-year Denel orders of which the order values have been accumulating over the past number of years due to non-expenditure on those orders. During the 2022/23 reporting period, there were only eight capital projects with a specific funding allocation for the year. Nonetheless, a total of 22 capital projects were being executed due to funds being carried over from the previous financial year. Only projects that had already been contracted or partially contracted for execution were funded, and as these projects are completed, the number of projects being executed will continue to decline with no additional new allocation currently visible on the Special Defence Account.

Funding for technology development was allocated to the Special Defence Account during the reporting period, and this funding will serve to partly maintain at least the most critical capabilities in the industry and ensure that some measure of renewal takes place.

d. Risks and Concerns

The reduction of the DOD budget continues to have a significant impact on the domestic defence industry. Several companies in the defence industry were forced to downscale capacity during the reporting period and to simultaneously focus more on the export market. This downscaling as well as a shift in focus, has had a marked impact on the ability of industry to meet contractual commitments for the DOD. The reduction in capacity is continuing to impact negatively on Armscor's ability in meeting the DOD's cash flow expectations for the financial year.

The continued reduction in the DOD budget allocation and specifically the significant reduction in capital projects funded from the Special Defence Account has necessitated Armscor to evaluate the impact of this continued and significant change in its operating environment. In this regard, the Acquisition and SCM Business Unit developed a new strategy during the 2021/22 financial year. A number of initiatives emanating from the strategy are being implemented currently.

The continued decline in the capabilities of Denel remains a concern, specifically with regards to Denel's ability to execute its contracted obligations as well as with the maintenance of the capabilities required to support and renew the Prime Mission Equipment of the SANDF for which Denel is the Original Equipment Manufacturer (OEM.) In this regard, Armscor has developed a number of initiatives aimed at maintaining the essential capabilities established in Denel, and furthermore to support Denel's turnaround initiatives.

e. Opportunities

Several opportunities were identified and leveraged:

- During the reporting period, Armscor has taken the lead with the exploitation of several substantial export opportunities, which have the potential to provide significant stimulation to both Denel and the broader domestic defence industry.
- In response to the declining international image of Denel as a reliable supplier of defence systems, Armscor is capitalising on its good reputation in the international marketplace as a reliable, professional and capable state entity. The Corporation intends to act as an interface and main contractor to foreign defence forces and to consolidate capabilities in the domestic defence industry. The aim is to provide integrated and comprehensive solutions to those potential foreign clients. In this regard, Armscor has had promising interactions and has strengthened relations with a number of potential foreign clients who have indicated a preference to work with Armscor to obtain niche defence systems from South Africa.
- The decline in the capital budget over the past number of years has precipitated a shift in focus away from traditional capital acquisition projects. Moving towards maintenance, support and the life extension of existing products systems of the SANDF. Armscor has been positioning itself to provide a more comprehensive service to the SANDF with respect to maintenance and life extension of products systems, which are currently in use. The Corporation develops and implements processes and mechanisms to facilitate rapid acquisition of new capabilities to meet the changing operational requirements of the SANDF.

The Defence Acquisition Handbook has been upgraded by the introduction of a shortened acquisition process. Armscor has positioned itself to provide greater assistance to the DOD with regards to the utilisation of emerging technologies that have the potential to meet current operational requirements in a more efficient and cost effective manner.

f. Financial Performance of Acquisition Function

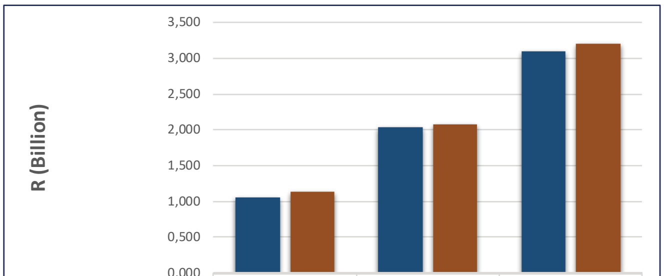
An important objective of the Acquisition Department remains the commitment of all planned orders and full achievement of planned expenditure of DOD funds. In terms of the Service Level Agreement between Armscor and the DOD, Armscor's cash flow performance is measured against the joint Armscor/DOD cash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

In addition to poor performance by Industry, factors beyond Armscor's control that inhibit planned cash flow from realising would typically be factors such as:

- requirements that are received too late in a financial year to allow industry to execute the full extent of work within the financial year,
- where all planned funds are not spent as a result of improvements in the predicted rate of exchange, or where ceiling amounts are contracted,
- or where the full extent of work provided for does not materialise (e.g. maintenance contracts).

A total amount of R1.627 billion, which was planned during the first revision in May/June 2022 as cash flow for the 2022/23 financial year is regarded as not being achievable due to factors beyond Armscor's control (as supported by agreements from the DOD). Taking this reduction of the planned cash flow target into consideration, Armscor achieved and exceeded its targets for the year with 95% cash flow performance against the planned cash flow for both capital and operating funds. Figure 12 reflects the planned cash flow that has been adjusted by deducting the value of orders that could not achieve planned payments due to factors beyond Armscor's control versus actual cash flow achieved.

Figure 12: Achieved vs Planned Cash Flow



	Capital Budget	Operating Budget	Total
Adjusted Planned Cashflow	1,060	2,037	3,097
Actual Cashflow	1,138	2,071	3,209

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

At the end of the 2022/23 financial year, 60,40% (R10.402 billion, excluding Hensoldt and RDM orders) of the total DOD order book for the financial year, comprised orders placed on Denel. The continuous loss of capacity and capability at Denel, has again resulted in suboptimal performance against their contractual obligations. Denel managed to invoice for only 5,87% of the total value of orders for the 2022/23 financial year. This significant underperformance by Denel continues to place significant strain on Armscor's ability to improve on total cash flow during the financial year.

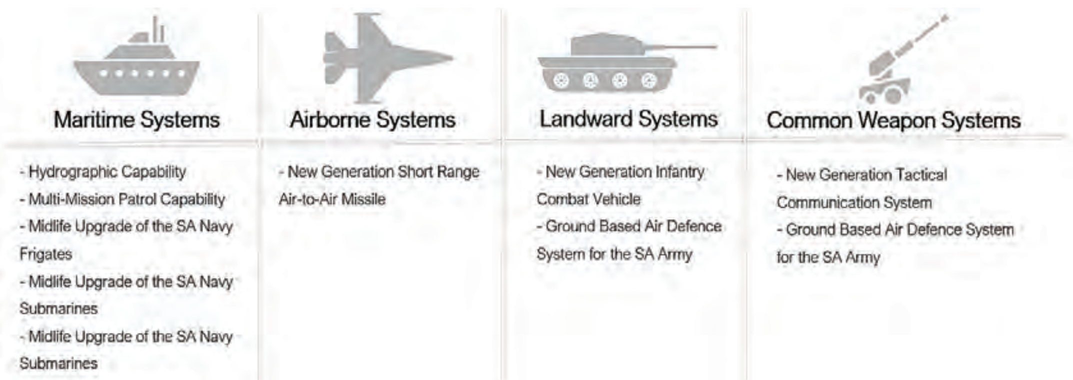
A significant portion of the capital acquisition order book (R9 billion) comprises order values for the New Generation Infantry Combat Vehicle and new Air-to-Air Missile projects at Denel where unspent order values from previous financial years have been accumulating due to delays. During the past three years, these programmes have shown no progress during the reporting period. Non-expenditure against this portion of the total order book also forms part of the total order book for which no cash flow was planned for the financial year under review.

g. Status of Significant Acquisition Projects

General

As already experienced over the past four years due to the significant reduction of the capital budget, no new capital acquisition projects were initiated during the reporting period. The capital acquisition projects that continued to be funded were projects, which had already been contracted during previous years. The reduction in the capital budget is having a significant and continuously increasing impact, not only on the local defence industry and on the maintenance of strategic and sovereign capabilities within the industry, but also on the operational readiness of the SANDF going forward.

Figure 13: Status Summary of Significant Acquisition Projects



EXECUTING FUNCTIONS

Maritime Systems

• Hydrographic Capability

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

At the end of the reporting period, the construction of the HSV platform and its superstructure had been completed with the exception of installation of equipment, which is ongoing. The construction of the three SMBs and Sea Boat has been completed. The third SMB, which is meant to be kept as reserve has been handed over to the SA Navy for commencement of the operational test and evaluation phase. The remaining two organic SMBs and Sea Boat have been handed over to the main contractor for preservation, awaiting integration to the HSV once completed.

The upgraded SANHO has been completed and was handed over to the SA Navy. The delivery schedule of the project had to be extended due to *Force Majeure* claims (COVID-19, KZN Flooding and Civil unrest, both locally as well as in a supplier country).

The main contractor has been experiencing commercial challenges, which are having a negative impact on the programme. In this regard, Armscor has intervened by amending the contract to ease cash-flow management between the main contractor and their sub-contractors.

• Multi-Mission Patrol Capability

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

The MMIPV project is progressing in accordance with the contracted functional performance and cost.

The delivery of the first vessel took place in May 2022 and has been taken into operation by the SA Navy.

The construction of the second vessel has been completed and the vessel was launched during the reporting period. The vessel is currently being commissioned and acceptance testing has commenced in preparation for delivery to the SA Navy during the second half of 2023.

The keel of the third vessel has been laid and manufacturing of the ship sections is nearing completion, with all major equipment having been delivered to the shipyard.

The delivery of logistic support elements is on track and are being delivered progressively with each vessel.

• Midlife Upgrade of the SA Navy Frigates

The aim of the programme is to address obsolescence on SA Navy Frigates and to ensure proper through-life support of the Products System. The project formally established the Functional Baseline (Defining the operational requirement) during 2021 after completion of all combat suite and platform studies.

Due to the reduction of the capital budget, all further funding for this project has been removed, and project activities have been suspended.

• Midlife Upgrade of the SA Navy Submarines

This programme relates to the midlife upgrade of the current Type 209 Submarines of the SA Navy. The aim of the programme is to combat obsolescence of the platforms through replacement of identified subsystems on the vessels in order to ensure continued supportability of the submarines.

Feasibility studies have been completed and a recommended approach was defined in the Project Study Report, which was subsequently submitted to, and approved by the SA Navy. The acquisition and implementation phase of the programme was due to commence after completion and acceptance of the recommendations of the Project Study Report. However, due to the reduction in the DOD capital budget, no further funds exist in the short term to continue with the project and all further activities have been suspended. The current allocation of R1,4 billion rands is allocated to REFIT two Submarines and one Frigate. These projects are managed by the Dockyard.

EXECUTING FUNCTIONS

Airborne Systems

• New Generation Short Range Air-to-Air Missile

This project entails the development of the A-Darter 5th generation short-range air-to-air missile system for the SAAF, which was co-funded by the Brazilian Air Force (FAB), and the subsequent manufacture thereof for the SAAF.

The development phase of the missile system was completed during August 2019 with completion of the Airworthiness Certification process by both the South African and Brazilian Air Forces. Completion of the development phase of the missile furthermore signified the end of the co-operation with the Brazilian Air Force on the development programme.

Contractually, the full complement of contracted missiles was scheduled to be delivered in October 2017. The project experienced significant delays, as a result of some technical and financial challenges encountered by Denel, which resulted in non-delivery of components and sub-systems by suppliers. This also led to a substantial loss of experienced and critical personnel at Denel. The project came to a complete stop during the previous financial year and no progress has been made since then.

During the reporting period, Armscor launched an initiative to investigate the possible revivification of the project. The Corporation found that it is feasible to complete the industrialisation and production of the missiles to meet the requirement of the SAAF. This could be pursued by following a completely different and unique contracting model and with greater participation from the local defence industry. Armscor is currently pursuing the new approach to the project and by the end of the reporting period, Armscor had completed the development of the model to be followed. The approach would be presented to the DOD for final approval before continuing with execution thereof.

Landward Systems

• New-Generation Infantry Combat Vehicle

This project provides for a New Generation Infantry Combat Vehicle Products System to replace the Ratel Infantry Combat Vehicle that has been in service since circa 1976. The project originally comprised five combat variants including their logistic support and ammunition. Four new variants were added when the industrialisation and production phase of the project was activated in 2013. The originally contracted number of vehicles were subsequently increased from 238 to 244 as a quid pro quo for an increase in the advance payment awarded to the contractor.

This programme has been plagued by delays over the past five years and there has not been any significant progress during the past financial year. The development phase of the programme was contractually scheduled to be completed in May 2012 (original date), but has still not been completed. The delays are mainly attributed to both technical and financial challenges within Denel. A number of employees have subsequently left Denel, thus further exacerbating the lack of capacity and capability of resources within the entity.

The delivery of the first Battalion consisting of 88 vehicles was contractually scheduled to be completed in May 2019. This date was not achieved, and production has not even commenced due to delays in the development and industrialisation process.

During the reporting period, there have been a number of high level engagements between all stakeholders with the intention of determining if and how the programme can be resuscitated. It was determined between Armscor and Denel that one of the main stumbling blocks in regaining some traction in the programme, are a number of demonstrated non-compliances to the contracted specifications that could not be resolved by Denel.

Armscor has interrogated the status of the project and the impact of the non-compliances on the operational capability of the system. The Corporation will make recommendations to the SA Army in this regard. Acceptance of the recommendations by the DOD will unlock the continuation of the programme. Armscor is engaging with the DOD with regards to the way forward on the programme and is expecting that a resolution will be achieved early in the next financial year.

On a positive note, seven of the Badger Infantry Combat Vehicles (Four Section Variant industrialisation models and three development models of other variants) took part in the Armed Forces Day parade in February 2023. Two of the Section Variant vehicles participated in the night-time live firing demonstration.

• Ground Based Air Defence System for the SA Army

For ease of management, the total Ground Based Air Defence (GBADS) project was divided into three distinct and well defined phases. The first phase of the programme, namely the Local Warning Segment, has been delivered to the SA Army Air Defence Artillery Formation (the GBADS user) and is operational.

Phase two of the GBADS programme comprises two sub-phases. The first sub-phase entails the upgrade of the Gun Fire Control System (GFCS) of the 35 mm Anti-Aircraft guns currently in service with the SA Army Air Defence Artillery Formation. The second sub-phase entails the inclusion of the missile Short Range Air Defence system capability, but it remains unfunded. The gun upgrade under the first sub-phase provided for a radar-guided semi-integrated gun fire capability for the current 35mm guns, which significantly enhanced the operational capability of these guns. The first sub-phase of phase two has been completed and has been delivered to the SA Army Air Defence Artillery Formation.

The third phase of the GBADS programme addresses the Design and Development of the Battle Management, Command and Control, Communications, Computers and Information integration within the Mobile Air Defence System Regiment. The development of this system is currently in process and should be completed with the establishment of a Product Baseline by April 2024.

The new products system will comprise the Air Defence Operational Centre, fitted with a modern Air Defence Control System and Tactical Command and Control System, new Infantry Combat Vehicle based Head Quarters, upgraded Thutlwa Radar System and the higher-order linking to Air Force Sector Control Centre.

COMMON WEAPON SYSTEMS

• New Generation Tactical Communication System

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

The communication system encompasses state-of-the-art transmission and information security techniques, whilst incorporating semi real-time data link performance characteristics and digital voice communication. Development, integration and qualification of the various elements of this system has been completed. Design Test and Evaluation has been demonstrated successfully, whilst system performance has been verified and accepted by the user during Preliminary Operational Test and Evaluation. Backwards compatibility with legacy systems was demonstrated and interoperability between the different services was verified.

This is 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.

Defence Industrial Participation

Defence Industrial Participation (DIP) entails the obligation incurred by a foreign supplier to reciprocate defence related business in South Africa because of foreign Defence Acquisition.This forms an integral part of the DOD’s policy framework for the retention and development of the SADI.

Armscor is currently managing 13 existing active DIP agreements resulting from capital acquisition projects, and one DIP agreement resulting from the procurement of pistols on behalf of the South African Police Services (SAPS).

Under the project to supply three Inshore Patrol Vessels (IPVs), the obligor achieved over and above what was planned by huge margins for the two previous financial years. The obligor consequently reduced the claims execution during the current reporting period. This has significantly affected achievement of the initial target set for the financial year under consideration.

Under the project for the Acquisition of a HSV, three of the four obligors have already registered DIP credits. The non-payment of suppliers by the main contractor (SAS) during the previous financial year, continued to persist during the reporting period. The non-payment of sub-contractors by the main contractor has resulted in significantly lower than planned execution of DIP related activities. This negatively affected achievement of the DIP targets for the year. The risk of non-performance against the total obligation and final completion dates is deemed to be medium to high, and the situation is being monitored on a continuous basis.

For other DIP activities such as the obligations accrued against the acquisition of Aviation Rescue and Fire Fighting Vehicles as well as for the acquisition of night vision equipment, the obligors have experienced various challenges. These resulted in lower than planned execution of their DIP obligations.

Based on this, achievement against the set targets for the DIP portfolio was significantly less than planned. It is expected that this phenomena will continue to persist for at least the following financial years. The status of the four DIP Portfolios as at 31 March 2023 is reflected in Table 7.

Table 7: The status of the four DIP Portfolios at 31 March 2023 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	0	8	15 111	0	15 111	0
Active (SDA)	15	40	8 010	22	7 603	407
Police Contracts	1	3	184	5	168	17
Proactive	2	0	n/a	0	74	n/a
Total	**18**	**51**	**23 305**	**27**	**22 956**	**424**
Historic Proactive	1	48	n/a	0	868	n/a

2.3.2 RESEARCH AND DEVELOPMENT

Armscor, through its Research and Development (R&D) Business Unit, is mandated by the Armscor Act to manage strategic capabilities and facilities. The mandate and corporate outputs of Armscor require the R&D Business Unit to ensure continuous growth of the strategic capabilities and facilities under its control. This includes defence operational and scientific research, test and evaluation services, and technology management, analysis and industrialisation, and innovation management services.

2.3.2.1 Fluid and Mechanical Engineering Group

Fluid and Mechanical Engineering Group (Flamengro) has four main capabilities, namely computational mechanics, test measurement, software development and additive manufacturing. These capabilities are offered to the main client, the DOD, as well as to the commercial clients in the defence industry. This type of work involves development and maintenance of Internal and External Ballistics Codes, development of new Ammunition Technology, Weapon Systems Launch Response, Artillery Range Extension Mechanisms, Ammunition Technology, and Weapon Mounting Dynamics.

Significant highlights and events during the reporting period is:

- Completion of the 30 x 173 mm medium calibre concept demonstrator for Counter Rocket Artillery and Mortar (CRAM) applications. The purpose of this Defence Research and Development Board (DRDB) funded project was to also develop a relatively cheaper and affordable medium calibre ammunition for CRAM applications whilst using existing subsystems from local defence industry role players.
- A design and commissioning of a spin-jig for a pre-fragmented 30 mm projectile fuse testing was achieved. The spin-jig is a continuation of the pre-fragmented 30 mm projectile project in partnership with local manufacturers (Denel Rheinmetall – RDM, Denel PMP and Reutech Solutions). The 30 mm projectile is used by many defence forces throughout the world. In an effort to improve this projectile, Flamengro developed two versions of this projectile to be integrated in many weapon systems. This development has now surpassed technology readiness level 4.

In order to strengthen this capability, Flamengro is continually investing in training young engineers under the Armscor Talent Development Pool trainee programme for two years. The current talent pool includes two mechanical engineers.

2.3.2.2 Armour Development

Armour Development makes use of the latest available materials and methods to design and contribute towards manufacturing of armour systems for the DOD. These concept armour designs are tested against light, medium, heavy calibre weapons, explosives and warheads under controlled conditions. The research projects are funded by the DRDB and are guided by the requirements of the soldier in the field and addresses current and future threats. The research projects are mainly the Armour Protection Technology and the Critical Angles. The Critical Angle project is executed with a partnership from Swedish Steel AB. Armour Development also serves various local and international defence companies.

Significant highlights and events during the reporting period is:

- Armour Development has received new orders for their Armour Protection Technology and Critical Angle projects. These projects are both funded through the DRDB. The Critical Angle project is executed in partnership with a Swedish company. Armour Development continues serving various local and international defence companies.

- Armour Development provides ballistic testing services to the commercial clients for certification of armour systems which further allows these companies to market their products locally and internationally. In addition, Armour Development has a wealth of knowledge in armour design and provides design review on armour for vehicular applications in the industry.

- All the armour protection and commercial work packages milestones on Armour Development that could be used for current and future armour systems for the DOD and commercial clients were achieved, completed and delivered. There has been renewed interest in the new generation body armour package developed by Armour Development for use by the SANDF. Armour Development recently appointed an Armour Technologist with the aim of maintaining its capabilities.

2.3.2.3 Institute for Maritime Technology

The Institute for Maritime Technology (IMT) is recognised as a professional body established to provide technology research and development and support services in various technology domains. Initially the work undertaken at IMT was mainly centred on naval operational research and the establishing of underwater technology in the local defence research environment. Over the years, the scope of activities has increased to meet the growing demands of not only the SA Navy and other members of the maritime community, but also that of the other Services of the SANDF.

IMT provides a strategic technological / scientific support service to the SANDF in support of its national and international maritime roles and responsibilities. IMT also provides technology support to non-SANDF and commercial clients.

A significant highlight and event during the reporting period is:

IMT obtained its full funding for the planned projects as per IMT Planning Process. However, a challenge was the high number of resignations in key positions that led to 17 vacancies. All the vacancies were advertised in the same financial year. In spite of these challenges, IMT continued to fulfil its requirements from the client in ensuring that all the planned projects are achieved on time.

2.3.2.4 Defence Decision Support Institute

The Defence Decision Support Institute (DDSI) renders the following services to the SANDF and other South African government departments:

- Defence Capability analysis, Environmental Scanning, Operational Data Analysis, Operational Research Services, Policy Development and/or Support, Regional analysis and Strategy Development Support.
- Configuration and Data Management, Logistics and Systems Engineering support.
- Products System Management and Stock management within the DOD.

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

EXECUTING FUNCTIONS

2.3.2.5 Intellectual Property Management Division (IPMAD)

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

- Identification of IP,
- IP recordal and protection,
- IP valuation,
- IP contract management,
- Legislative compliance with IP laws, and,
- Direct and / or indirect exploitation of IP.

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

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

IPMAD also manages Armscor owned IP. Armscor IP is exploited with the approval of Armscor Board of Directors and one Armscor IP/technology was exploited in 2022/23 financial year.

Furthermore, in managing the IP, IPMAD is responsible for assisting the DOD with accounting for the DOD's Intangible Assets relating to IP within Armscor. This is done by annually preparing a Financial Asset Register for all DOD's Intangible Assets within Armscor in accordance with National Treasury's Modified Cash Standard. The Register is audited annually by the Auditor General of South Africa (AGSA). An unqualified audit for Intangible Assets relating to IP was obtained by the DOD for 2021/22 financial year.

2.3.2.6 Technology Management, Analysis And Industrialisation Division

The Technology Management, Analysis and Industrialisation Division performs an independent, centralised coordination and management role for technology acquisition of Category 1 defence matériel, facilities and services in accordance with the operational requirements of the Department of Defence (DOD).

The Division manages technology programmes in various areas to develop and maintain capabilities in South Africa, which would support the new and changing demands of the SANDF. The Division derives its mandate from the Service Level Agreement between Armscor and the DOD.

2.3.2.7 Management of Technology Development Programmes

The strategic intent for undertaking technology development programmes in various technology areas is to develop and maintain relevant technologies and capabilities in South Africa, which will support the dynamic requirements of the SANDF.

These technology development programmes are conducted in South African Defence Industries (SADI), Defence Evaluation and Research Institutes (DERIs), and at Tertiary Education Institutions (Universities).

Management of Technology Development Programmes include:

- *Landwards Technology* – provides SA Army with scientific and engineering advice and technological solutions aimed at providing engineering knowledge to improve weapon systems in the domains of mobility, protection, firepower.
- *Aerospace Technology* – provides the SA Air Force with scientific and engineering support services in the Aeronautics, Airborne Electronic Warfare and Guided Weapons domains.
- *Maritime Technology* – provides SA Navy with scientific and engineering support services as well as risk reduction work for the new vessels being acquired. Research and development work is being conducted in the underwater communications, underwater warfare, underwater security, above-water warfare, maritime domain awareness domains.
- *Electronics Technology* – provides ready technology base in electronics in order to provide scientific and engineering advice and technical solutions to all arms of services of SANDF in radar, electronic warfare, optronics, communications, command and control, information security domains.
- *Support Technology* – develops and maintains sustainable capability in Chemical and Biological Defence as well as Ergonomics and Body Armour as part of soldier support.

2.3.2.8 Gerotek Test Facilities

Gerotek Test Facilities (Gerotek) primary mandate is to be a strategic test facility of the DOD for testing and evaluation of military vehicles and subsystems; and characterisation of antennae and radio systems for all arms of SANDF.

Gerotek is a multi-disciplinary test facility, providing accredited, independent test and evaluation services, product launch promotions and corporate events; advanced driver training and development programmes for the automotive, electronics, defence industries including security forces and other local and international industries.

Gerotek has five (5) income generating operations (with own cost centres), as a multi-disciplinary test facility:

- Testing: Vehicle, Environmental, and EMC (ISO 17025 accredited);
- Paardefontein National Antenna Testing Range;
- Gerotek Advanced Driver Training (SASSETA and TETA accredited);
- Gerotek Events and Conference Services; and
- Sidibane Restaurant.

Significant highlights and events during the reporting period is:

- Improved compliance to public finance regulations and transformation objectives.
- Received a Recognition Certificate in December 2022 from the South African National Accreditation Services (SANAS) for maintaining continuous ISO17025 accreditation for more than 20 years.
- Gerotek maintained its TETA and SASETA accreditation; maintained its ISO 45001 and ISO 14001 certifications on SHEQ management systems.
- The capacity of environmental testing was increased by adding 2 new climatic chambers.
- The capacity of driver training was increased by adding 3 new training vehicles.
- In an effort to collaborate with other state institutions, Gerotek negotiated and signed 2 memorandum of agreements (MOAs) with Johannesburg Water, and Gauteng Province Department of Roads and Transport (GPDRT) for advanced driver training programmes.
- Conducted engineering studies to generate project plans for rehabilitation of its state of the art infrastructure and testing facilities to achieve efficiency, safety, and quality of test results.
- Business development and marketing efforts continue in a form of exhibitions and trade shows e.g. AAD 2022, and Festival of Motoring 2022.

2.3.2.9 Alkantpan Test Range

Alkantpan Test Range is an ISO 9001 certified all-purpose ballistic test facility. The range supports a wide variety of test and evaluation activities covering many defense related technologies including ground-based weapons systems, explosive ordnance and hazardous materials. In addition to this the range also caters for commercial test campaigns. These include mining explosive testing according to UN test specifications, UAV test & endurance flights and other hazardous events.

Alkantpan Test Range is located in a semi-desert area of the Northern Cape Province and covers 85 000 ha of flat terrain with sparse vegetation and low rainfall. With live ammunition firing up to 65km and inert up to 80km, Alkantpan can accommodate a large variety of test activities.

The lifting of National Disaster Management Act during April 2022, resulted in the increase of foreign sales and this trend is predicted to continue in the next financial year. This has translated to an increase in tests for foreign customers increasing from two (2) during 2021/22 to sixteen (16) tests in the reporting period. These tests ranged from calibers 20mm up to 127mm.

A significant highlight and event during the reporting period is:

- Unmanned Aerial Vehicles (UAVs)

Alkantpan has in its product offering, Unmanned Aerial Vehicles (UAV) testing. The systems that are tested at Alkantpan are rugged and have been field tested.

With the benefit of a huge surface space and a restricted air space (due to artillery firings), this gives Alkantpan an advantage for UAV testing. There was a significant increase in requests received, during the reporting period, with actual UAV testing anticipated in the near future. Alkantpan also saw its first loitering munitions testing - where ground targets were engaged by aerial vehicles fitted with explosives devices.

2.3.2.10 Ergonomics Technologies

Ergonomics Technologies (ERGOTECH) continues to lead in the South African ergonomics industry through providing a comprehensive array of ergonomics and occupational hygiene services to the SANDF and commercial clients.

Significant highlights and events during the reporting period is:

- Expanded the motion capture and biomechanical modelling capabilities through the identification and procurement of the Xsens Awinda Portable Motion Capture System. This system will not only allow for the collection of biomechanical data in field conditions, but in the presence of metal objects. This capability will allow for ergonomic assessments to be conducted in vehicles, in the presence of military equipment and weapons and in factory environments.
- In collaboration with Fluid and Mechanical Engineering Group (Flamengro), a testing methodology was developed for the analysis of body armour response to blast loading via Digital Imaging Correlation.
- Developed a testing methodology for investigating the effect of military load carriage on head, neck and shoulder posture through biomechanical modelling and electromyography.
- Provided ergonomics inputs towards a boot specification for the South African Special Forces.
- Further expanded its research and commercial capabilities through the procurement of a BODPOD. This piece of equipment is regarded as the gold standard for the measurement of body composition.

2.3.2.11 Hazmat Protective Systems

Hazmat manufactures and supplies a range of respiratory products to end-users (commercial clients) and distributors of personal protective equipment (PPE). Hazmat's products mainly consist of air-purifying respirator filter canisters, cartridges, half and full face masks.

Significant highlights and events during the reporting period is:

- Hazmat maintained its ISO 9001:2015 Quality Management Systems Certification thus ensuring high quality products and customer satisfaction.

- Activated carbon is used extensively in the manufacturing of air-purifying respirators. Hazmat's unique activated carbon impregnation plant provides Hazmat with a competitive advantage. Impregnated carbon is still one of the most effective and sufficient methods of removing contaminants (toxic gasses and vapours) from air. The plant was maintained with a major maintenance scheduled for the 2023/2024 financial year.

The reporting period was challenging as numerous industries using Hazmat products encountered a decline in manufacturing output (e.g. mining industry) due to load shedding which resulted in a decrease in the need for Hazmat's products. The impact of continued and increased load shedding is unknown. One of Hazmat's major clients was liquidated late in the financial year. This significantly impacted revenue and profitability resulting in Hazmat experiencing its first net loss in several years.

Numerous initiatives have been implemented to counter the loss in revenue. A new distributor was appointed for the African Market. Stakeholder engagement has been intensified to increase sales and gain new clients, e.g. a new particle filter was successfully developed for an existing client. Hazmat is negotiating the unique branding of products for a new major client. This initiative should enable Hazmat to achieve previous sales volumes and re-establish Hazmat as a profitable entity in the medium term.

2.3.2.12 Protechnik Laboratories

Protechnik Laboratories (Protechnik) is a multidisciplinary scientific laboratory focused on high-end research and development work in Chemical and Biological (CB) defence solutions.

Significant highlights and events during the reporting period is:

- Remote Chemical Detection Technology

Renowned for its capability as a testing laboratory (ISO 17025/IEC: 2017 accredited over 30 years), Protechnik in collaboration with other research institutions within Armscor and external, embarked on remote testing services. The design for the remote chemical detection technology was an initiative to support the South African Military Health Services (SAMHS) capability to identify and quantify hazardous chemical vapours in areas that are inaccessible. The detection research has been extended with the development of graphene-based nanotechnology for electrochemical gas sensors. The environmental monitoring attributes include the detection of chemical warfare agents (CWAs) and toxic industrial chemicals (TICs). The objective of this research was to eliminate or mitigate the in-person detection system to adapt with the changing environment.

EXECUTING FUNCTIONS

• Mobile Chemical Biological Laboratory

The Biomedical Domain is in the process of certifying the Mobile Chemical Biological Defence Laboratory (MCBDL) as a BSL-3 facility with the Department of Agriculture, Fisheries and Forestry to allow the field-base unit to handle highly pathogenic microorganisms in cases of outbreaks and pandemics. The focus will be on the integration of the remote detection system with the unique (multidisciplinary laboratory) BSL-3 certified MCBDL.

• Test and Evaluation of Personal Protective Equipment

The Protection Domain within Protechnik has been involved in the test and evaluation of personal protective equipment, including respiratory protective equipment (RPE) since its inception. The domain has been rendering these services to the SAMHS to ensure the safety of military personnel and continues to provide comprehensive testing for different types of RPE. Furthermore, this contributes to ensuring that the country at large uses verified products that adhere to acceptable standards that are comparable to national and international standards.

• Analytical Chemistry Course
Diversifying Protechnik capabilities, the facility offers an analytical chemistry course to African countries with the utilization of the advanced analytical instrumentation of the facility as a training hub. The initiative is extended to SAMHS (7 Medical Battalion Group) as first responders with the emphasis on the risk associated with exposure to hazardous chemicals.

2.3.3 ARMSCOR DOCKYARD

Armscor Dockyard is an ISO 9001 certified organisation mandated to do third-level maintenance, repair, overhaul, and modernisation on the fleet of vessels of the SA Navy. This indicates that the Dockyard capability must be maintained in terms of people, buildings, equipment, training, and renewal in order to properly support the SA Navy. All of these efforts are done to ensure that the vessels do sail.

Armscor Dockyard spent a great deal of time, effort, and resources to renew its capability to execute the mandate effectively. Renewal of people, skills, training, development, and recruitment of vacancies was on the agenda, and the skills required going forward in Armscor Dockyard are being introduced.

Capital renewal and equipment upgrades were managed on an ongoing basis, where old and redundant equipment were disposed of and replaced with newer technologies, putting Dockyard at the forefront of the latest technologies. Maintenance of facilities such as the dry-dock, cranes, and synchro lift was also prioritised in terms of procurement and execution.

Obsolete equipment requires more intense preventative and scheduled maintenance, and the maintenance plans for all of these were completed. Funding of these efforts remains a challenge due to budget cuts and procurement delays, which impacts negatively on planned schedules.

Project Management

Armscor Dockyard performance is measured in accordance with the Performance Management Plan agreement signed with the SA Navy. Armscor Dockyard met its performance obligations by providing repairs and maintenance services on both planned and unplanned work.

Projects Highlights

• SAS Charlotte Maxeke (Refit)

Armscor Dockyard intend to collaborate with industry as capacity and capability multiplies, which will result in sovereign submarine capability. The refit is in full swing as the overhaul phase is being concluded.

• SAS Manthatisi: DED

SAS Manthatisi planned maintenance DED was completed and the boat undocked in December 2022. The boat passed post-maintenance trials and is ready to sail.

• Infrastructure Upkeep

The Site and Facilities Services Division is responsible for providing auxiliary services such as shore supply, docking operations, electricity production, and mobile equipment supply for projects in accordance with the MOA between SA Navy and Armscor Dockyard. The divisions provided 100% of ancillary services to the SA Navy. The power generation has taken a strain due to Eskom load shedding disruptions. Upgrades on electrical supply infrastructure have been planned to ensure adequate power supply to the yard.

The Durban synchro lift is operational with limited capacity. The planned maintenance projects is ongoing with structural survey underway to ensure increased capacity. The equipment to capacitate the base with ship repair capability is being procured in line with the growth plan.

SUPPORTING FUNCTIONS

SUPPORTING FUNCTIONS

BUSINESS ASSURANCE

BUSINESS ENABLEMENT

CORPORATE SUPPORT

CORPORATE FINANCE

2.4 SUPPORT FUNCTIONS

2.4.1 BUSINESS ASSURANCE

Quality

The Quality Department looks after the specific functions of: Quality Management System, Supplier Quality Managment (which includes Third-Party and Government Quality Assurance) and the Safety, Health and Environment area.

Armscor strives to acquire and deliver products and services of the highest quality and standard to all its clients, whilst ensuring that its operations are conducted in a manner that does not compromise the safety/wellness of its stakeholders. It also seeks to ensure that due care is exercised with minimal adverse impact on the environment. This intention is articulated through the development, implimentation and maintenance of a sound Quality, Safety, Health and Environment (SHE) Management Systems that is certified under different schemes of the International Organisation for Standardisation (ISO) Management System standards.

This has particular focus and emphasis on its Acquisition and Supply Chain processes, providing the following quality assurance services:

- Ensure that the process to appoint service providers and suppliers is conducted in accordance with National Treasury regulations, and is fair, transparent and equitable.
- Monitor supplier quality performance against applicable technical standards and contractual conditions to ensure timeous delivery of defect free products to the client/end user.

Quality Management System

Armscor has established a Quality Management System (QMS) that conforms to the requirements of ISO 9001:2015 Standard. During the reporting period, the Corporation maintained its certification under ISO 9001:2015, following successful completion of the annual surveillance audits conducted across all its facilities.

Furthermore, to enhance its 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 Laboratories* is also accredited in accordance with ISO/IEC 17025:2005, in a specialisation for chemical and physical analysis.

Supplier Quality Management

The Supplier Quality Management function is performed by a dedicated team of Armscor Quality Representatives assigned to each Acquisition Project and or Product System Support Order. The team ensures that quality is carefully designed into the build process, thus embedded and reinforced into the product itself, and not checked only at the end of the product development process.

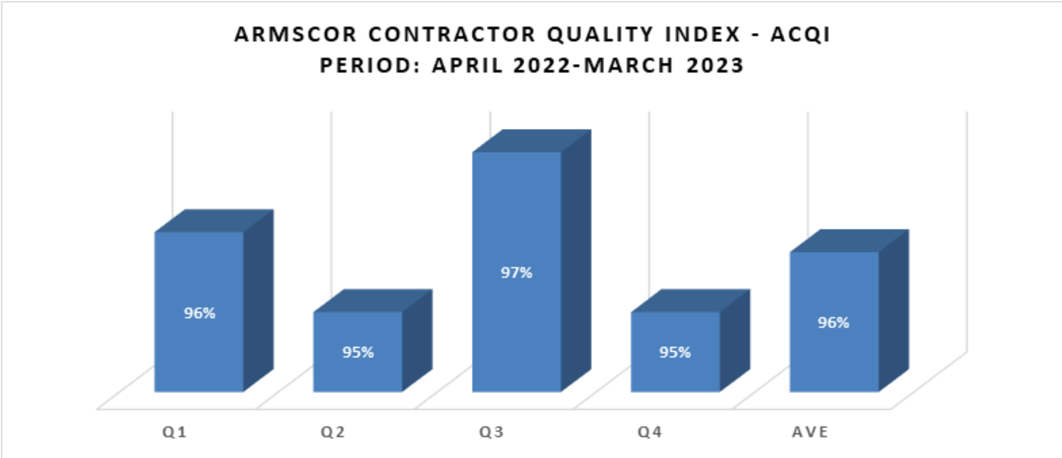
The performance of suppliers is monitored through an in-house developed tool called Armscor Contractor Quality Index (ACQI), which takes into consideration factors relating to the following:

- Inspection Release Certificate (k225) and Rejection Notes (k226) issued
- Deviations / Concessions Permit (K228) issued
- Corrective Action Requests (k229) issued

During the reporting period, a large percentage of suppliers performed well, and achieved an average ACQI rating of 96%, as reflected in Figure 14:

SUPPORTING FUNCTIONS

Figure 14: Armscor Contractor Quality Index



Third-Party / Government Quality Assurance

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

Governments of all countries and private entities receive third-party/Government Quality Assurance (GQA) services at a fee, contributing to the sustainability of Armscor, and skills development of the Quality Team.

GQA services are rendered by a team of Quality Representatives with the requisite technical knowledge and skills on military products and systems. The GQA clientele consists of both local and foreign clients. The revenue generated during the reporting period is estimated at R4m, well above the annual target of R3m.

Safety, Health and Environment

Armscor's Leadership team is committed to the management of SHE in the workplace. An internal Compliance Risk and Management Committee (CRMC) was established to monitor and review SHE related incidents and non-conformances on a quarterly basis. In order to ensure that an acceptable level of compliance to SHE requirements is achieved, the Corporate SHE Division conducts regular assessments on a quarterly basis at all Armscor sites. This exercise ensures that corrective measures are proactively implemented to address any non-conformances that may arise. Furthermore, SHE awareness and training sessions are conducted in accordance with each site's training needs to reduce or prevent SHE related incidents or accidents.

In accordance with the Armscor SHE policy, a SHE legal compliance audit was undertaken by an external independent body. This provided an opportunity for Armscor to update terms of its current compliance levels. The audit confirmed that whilst a number of operational compliance obligations have been met, there were also areas where non compliances were found. To this end, all reported findings have been integrated within a formal management plan for appropriate corrective action to be instituted.

Following the successful completion of annual surveillance audits by the certification bodies, Armscor's certification to ISO 14001:2015 Environmental Management System (EMS) Standard at its test facilities (Gerotek and Alkantpan) remains valid.

Gerotek Test Facility is also certified to ISO 45001:2018 Safety Management System standard. The Facility has successfully completed an annual surveillance audit in June 2022 to maintain its ISO certification status.

Corporate Compliance

Corporate Compliance consists of the following divisions: Legal Services, Arms Control Compliance, Transformation, and Governance, Risk and Compliance.

Legal Services

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

Litigation

The following Litigation matters are in the Director's Report:

- Beverly Securities;
- Quaker Peace Centre;
- Patria Land OY;
- Steradian Energy (Pty) Ltd;
- Aqua Marine Boats and Accessories;
- Duma Healthcare (Pty) Ltd; and
- Gauteng Department of Health.

Arms Control Compliance

The main objective of the Arms Control Division is to develop, implement and maintain the processes and procedures that are necessary for the execution of arms control compliance; particularly throughout the acquisition process where controlled items are involved. The function is aligned to the National Conventional Arms Control Committee (NCACC) Act, No. 41 of 2002, Non-proliferation Act, No. 87 of 1993, Firearms Control Act, No. 60 of 2000, Explosives Act, No. 26 of 1956 and requirements of supplier countries.

Process Management Permits and End-User Certificates and/or End-User Undertakings

During the reporting period, the following milestones are highlighted:

• Renewal of Armaments Development Manufacturing and Services (ADMS) Permits

Armscor is a holder of six Armaments Development Manufacturing and Services (ADMS) permits (NCACC registration certificate). Of this six, five were successfully renewed for an additional three-year period with the NCACC and one is still in processing at Directorate of Conventional Arms Control. The status is reflected in Table 8.

Table 8: Status on renewal of ADMS permits

No.	FACILITY NAME	DATE ISSUED	EXPIRY DATE	STATUS
1.	Armscor	5 April 2023	4 April 2026	Issued
2.	Alkantpan	16 March 2023	15 March 2026	Issued
3.	AB Logistics	5 April 2023	4 April 2026	Issued
4.	Protechnik Laboratories	14 March 2023	13 March 2026	Issued
5.	IMT	14 March 2023	13 March 2026	Issued
6.	Gerotek	Application submitted 18 April 2023	2 June 2023	In process

Process Management

• Arms Control Strategy

During the reporting period, Arms Control Strategy was developed, A-STRAT-9002, and an action plan was approved by Armscor Board of Directors for implementation. This strategy positions Armscor as a centre of excellence regarding arms control compliance for the benefit of DOD and Defence Industry and as a leading knowledge hub in the Southern Democratic states.

The Arms Control Division has also developed a policy, practice and procedure that determine how arms control compliance shall be coordinated within Armscor.

SUPPORTING FUNCTIONS

• Upgrading of Arms Control Asset Tracking System

Funding has been approved for the upgrading of Arms Control Asset Tracking System from *iDempier level 2 to iDempiere level-9*. The work will be carried out for a period of 12 months starting in May 2023, by the appointed service provider.

Governance, Risk and Compliance

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

Armscor is committed to managing all risks, which could hinder the achievement of its strategic outputs, while at the same time not limiting its potential to attain the same objectives by taking on an acceptable level of risk. The Corporation applies a holistic approach, where risks are viewed and assessed in relation to each other and/or against other influencing events, not in isolation.

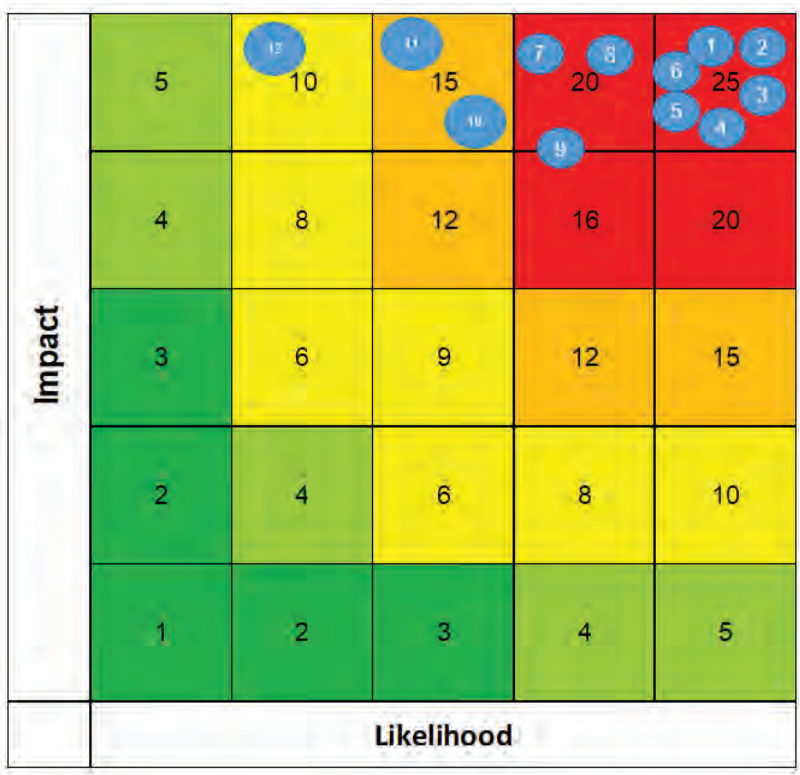
• Risk Governance

The Armscor Board of Directors has promoted a 'risk-matured or risk-intelligent' culture and set the risk management tone through the approval of the Risk Management Policy and Framework. The Board, in discharging its risk management responsibilities, is supported by the Audit and Risk Committee whose main responsibilities are to ensure that Armscor has implemented an effective Risk Management Strategy that will enhance Armscor's ability to achieve its strategic outputs.

• Corporate Strategic Risk Register

In fulfilling its governance oversight responsibility, the Board identified 12 strategic risks, which could threaten the achievement of the Armscor's strategic outputs and performance targets. Figure 15 is a heat map which summerises the Armscor strategic risk profile with Table 9 reflecting the risks faced by the Corporation and corresponding mitigating measures.

Figure 15: Organisational Risk Rating



PRIORITY 1 RISK (S):
- **Very High Risk Area.**
- **Risk is at Risk Bearing Capacity**

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

PRIORITY 2 RISK (S):
- **High Risk Area**
- **Risk is at the RBC Tolerance Level**

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

PRIORITY 3 RISK (S):
- **Medium Risk Area**
- **Risk is at Risk appetite level**

Risk 12: Global COVID-19 Pandemic

Table 9: Corporate Strategic Risks

No.	Corporate risk	Mitigating actions
1.	Reduction of the capital budget, which will have an impact on Armscor's contractual obligations.	a) Motivate for additional funding from the DOD. b) Propose early termination of certain contracts to limit exposure to fruitless expenditure.
2.	Financial sustainability of Armscor and loss of capabilities due to failure to fully commercialise.	a) Reduction of dependency on the transfer payment by looking into other revenue streams. b) Identify and monitor initiatives for generation of income and cost saving. c) Implementation of a review/evaluation process on projected income from revenue generation initiatives. d) Implement the Dockyard Commercialisation strategy.
3.	Cyber Security.	a) Establishment of the Cyber Innovation Division that will allow Armscor to write its own code to enable the establishment of digital auditing teams. b) Integration of technologies at the Security Operations Centre. Acquiring and deployment of enhanced security incident and events monitoring tools.
4.	Inadequate Business Continuity Management.	a) Review and implement integrated Business Continuity Plan.
5.	Loss of industry capabilities.	a) Periodically engage industry and contractors through assessment of capabilities. b) Development of a contracting model to enable payment of suppliers and subcontractors directly. c) Engage with potential alternate suppliers of critical spares and services for product systems of which Denel is the OEM. Prepare a request to the DOD for funding for R&D Capabilities through a MOA. Develop suitable contracting models to involve alternate suppliers as main contractors and implement the transition from Denel to suitable alternate suppliers/service providers.
6.	Inability to effectively and efficiently execute strategic and operational objectives due to non-supportive IT systems.	a) Implementation of the ERP system: i. Appointment of a service provider. ii. Review of project plan with service provider. iii. Implement ERP project plan.
7.	Vulnerability to counter intelligence threats resulting in the compromise of security classified information.	a) Engage Chief Defence Counter Intelligence about the delays in the adjudication process and inform EXCO of the outcome. Continuously, submit files that are ready for evaluation to the panel for consideration. b) Monitoring of Limited Access Authority process of dual/foreign citizens. c) Implement information security awareness sessions.
8.	Lack of optimal functioning of systems in the HQ building due to aged infrastructure.	a) Implementation of the facilities management plan. The following are priority areas: i. Air-conditioning system. ii. The PABX system and the telephone management system have been updated. iii. Procurement of generators for back-up site.
9.	Non-payment of monies owed by DOD and Department of Public Works and Infrastructure (DPWI) resulting in Armscor incurring losses.	a) Armscor has requested the DPWI to schedule a meeting with Special Investigating Unit (SIU) and invite Armscor to resolve the short payment. b) The long outstanding DOD amount in respect of a separate rental agreement, will again be raised at Ministerial level and DOD structures.

SUPPORTING FUNCTIONS

Table 9: Corporate Strategic Risks

No.	Corporate risk	Mitigating actions
10.	Non-compliance with SHE statutory and regulatory requirements resulting in inability to deliver on the mandate.	a) Develop and implement SHE Awareness and Training Plan. b) Conduct audits and quarterly reviews as per the approved SHE audit plan: i. Conduct planned annual SHE legal compliance audits. ii. Monitor the implementation of corrective actions. c) Maintain ISO SHE certification: i. Recertification of ISO standards every three years. d) Review and update the Hazard Identification and Risk Assessment (HIRA) Register at Corporate Level. e) Monitor and report progress on the implementation of HIRA mitigation measures.
11.	Reputational risk due to association (negative perception of State Owned Enterprises).	a) Testing of the approved Fraud Prevention Plan. b) Rollout the Code of Conduct and Ethics Implementation Plan.
12.	Global COVID-19 Pandemic.	a) Monitor, Review and Update COVID-19 pandemic mitigation measures as and when required.

• Fraud and Corruption

Fraud Risk Management remains an organisational responsibility. Armscor's Fraud Prevention Plan provides strategies in preventing, detecting and reporting fraudulent activities. Through the plan, Armscor demonstrates its commitment to fight against fraud and corruption through the promotion of the highest ethical standards, openness and accountability. Armscor has an anonymous whistleblowing mechanism that sets out the detailed procedure, which must be followed to report any incident of fraud and corruption.

• Conflict of Interest

Armscor is committed to doing business in an honest and ethical manner. It recognises a need to ensure that all business relationships are founded on professional principles and relationships are maintained independently. A framework for the prevention of conflict of interest as far as reasonably possible has been developed. Where conflict is unavoidable, guidelines on how to deal with the conflict in an ethical and responsible manner have been provided.

• Code of Conduct

Armscor is committed to discharge its legislative mandate in an ethical organisational climate that ensures that its business is run fairly and justly. The Code of Conduct provides a guideline to decision making and commits Armscor and its employees to a certain acceptable behaviour.

Transformation (Broad-Based Black Economic Empowerment)

The Transformation Division monitors compliance to the Prescripts of the Broad-Based Black Economic Empowerment (B-BBEE), Preferential Procurement and the Defence Sector Code of entities doing business with Armscor. It also seeks to ensure that Armscor meets its B-BBEE targets. Table 10 is an analysis of procurement and B-BBEE spend per Business Unit and or Department.

• B-BBEE Spending Report

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

Table 10: Acquisition

PROCUREMENT SPEND	B-BBEE SPEND	B-BBEE PROCUREMENT SPEND ON RECOGNITION LEVELS%		TARGET%
R2 847 895 558	**R2 635 468 316**	**92,54%**		**80%**
ENTERPRISE CLASSIFICATION	**AMOUNT PAID**	**B-BBEE SPEND**	**B-BBEE ACTUAL %**	**B-BBEE TARGET%**
Above R35m turnover	R1 348 500 676	R1 500 231 490	52,68%	0,00%
QSEs	R197 408 724,74	R239 934 730	8,42%	15%
EMEs	R48 146 366	R59 726 811	2,10%	15%
Specialised above R50m	R1 189 321 019	R1 056 454 785	37,10%	0,00%
Non-Compliant	R64 597 538	0,00	0,00%	0,00%
BOE >51%	R409 151 380	R417 161 807	14,65%	40%
BWOE >30%	R394 340 102	R167 212 215	5,87%	12%
BOE >25%	R1 268 279 333	R753 931 607	26,47%	0,00%
Foreign	R405 376 665	0,00	0,00%	0,00%
ESD Spend	R3 837 676	0,00	0,00%	0,00%
Military Veterans	R18 508 861	R17 901 413	0,63%	2%
Youth	R1 079 563	0,00	0,00%	2%

INDICATORS	DESCRIPTION	WEIGHTING POINTS	TARGET	ACHIEVED
SUPPLIER DEVELOPMENT	Annual value of all supplier development contributions made by the measured entity as a percentage of the target.	-	0,2% of annual turnover	Nil
ENTERPRISE DEVELOPMENT	Annual value of enterprise development contributions and sector specific programmes made by the measured entity as a percentage of the target.	-	0,1% of annual turnover	Nil
LOCALISATION	Procurement of defence matériel produced and/or manufactured in RSA by local enterprises.	6	60%	Nil
	Procurement from local enterprises that introduce new locally developed technology in the SADI not older than 24 months.	2	60%	Nil
	Procurement of technologies developed in RSA by local enterprises from IP owned by local enterprises, or technologies developed in RSA by local enterprises from IP licenced thereto by foreign enterprises.	2	60%	Nil
TOTAL		10		

SUPPORTING FUNCTIONS

During the reporting period, Acquisition met the B-BBEE procurement spend on recognition levels target. Procurement targets from Qualifying Small Enterprises (QSEs), Exempted Micro Enterprises (EMEs), Black Owned Suppliers, Black Women Owned, Military Veterans and Youth were not met.

There was no spend on Enterprise and Supplier Development.

Table 11: Dockyard

PROCUREMENT SPEND	B-BBEE SPEND	B-BBEE PROCUREMENT SPEND ON RECOGNITION LEVELS%		TARGET%
R12 691 219	**R14 577 118**	**114,86%**		**80%**
ENTERPRISE CLASSIFICATION	**AMOUNT PAID**	**B-BBEE SPEND**	**B-BBEE ACTUAL %**	**B-BBEE TARGET%**
Above R35m turnover	R858 083	R731 339	8,51%	0,00%
QSEs	R3 618 101	R4 882 958	68,10%	15%
EMEs	R6 380 506	R8 613 795	67,87%	15%
Specialised above R50m	0,00	0,00	0,00%	0,00%
Non-Compliant	R1 834 529	0,00	0,00%	0,00%
BOE >51%	R10 698 788	R10 528 516	82,96%	40%
BWOE >30%	R4 194 950	R3 065 930	24,16%	12%
BOE >25%	R10 808 720	R10 571 346	83,30%	0.00%
Military Veterans	0,00	0,00	0,00%	2%
Youth	R1 811 728	R2 445 944	19,27%	2%

INDICATORS	DESCRIPTION	WEIGHTING POINTS	TARGET	ACHIEVED
SUPPLIER DEVELOPMENT	Annual value of all supplier development contributions made by the measured entity as a percentage of the target.	-	0,2% of annual turnover	Nil
ENTERPRISE DEVELOPMENT	Annual value of enterprise development contributions and sector specific programmes made by the measured entity as a percentage of the target.	-	0,1% of annual turnover	Nil
LOCALISATION	Procurement of defence matériel produced and/or manufactured in RSA by local enterprises.	6	60%	Nil
	Procurement from local enterprises that introduce new locally developed technology in the SADI not older than 24 months.	2	60%	Nil
	Procurement of technologies developed in RSA by local enterprises from IP owned by local enterprises, or technologies developed in RSA by local enterprises from IP licenced thereto by foreign enterprises.	2	60%	Nil
TOTAL		10		

SUPPORTING FUNCTIONS

During the reporting period, the Dockyard met the B-BBEE procurement spend on recognition levels. The following targets have also been achieved, procurement from EMEs, QSEs, Black Women Owned Suppliers, Black Owned Suppliers and Youth. Military Veterans target was not met.

There was no spend on Enterprise and Supplier Development

Table 12: Operating Budget

PROCUREMENT SPEND	B-BBEE SPEND	B-BBEE PROCUREMENT SPEND ON RECOGNITION LEVELS%		TARGET%
R139 021 687	**R152 008 071**	**109,34%**		**80%**
ENTERPRISE CLASSIFICATION	**AMOUNT PAID**	**B-BBEE SPEND**	**B-BBEE ACTUAL %**	**B-BBEE TARGET%**
Above R35m turnover	R186 791 785	R156 846 173	112,82%	0,00%
QSEs	R25 268 173	R32 833 252	23,62%	15%
EMEs	R26 459 643	R35 566 410	25,58%	15%
Specialised above R50m	R1 556 093	R1 615 761	1,16%	0,00%
Non-Compliant	R24 005 253	0,00	0,00%	0,00%
BOE >51%	R95 054 739	R92 156 525	66,29%	40%
BWOE >30%	R87 842 409	R67 880 860	48,83%	12%
BOE >25%	R99 511 914	R93 410 460	67,19%	0.00%
Military Veterans	R514 117	R694 058	0,50%	2%
Youth	R5 030 927	R6 791 751	4,89%	2%

INDICATORS	DESCRIPTION	WEIGHTING POINTS	TARGET	ACHIEVED
SUPPLIER DEVELOPMENT	Annual value of all supplier development contributions made by the measured entity as a percentage of the target.	-	0,2% of annual turnover	R3,505,584
ENTERPRISE DEVELOPMENT	Annual value of enterprise development contributions and sector specific programmes made by the measured entity as a percentage of the target.	-	0,1% of annual turnover	R4,514,144
TOTAL		10		

SUPPORTING FUNCTIONS

The B-BBEE procurement spend target on recognition levels was met during the reporting period. The following targets were met on the Operating budget: procurement from EMEs, QSEs, Black Owned Suppliers, Black Women Owned Suppliers and Youth. The target on procurement from Military Veterans was not met.

Table 13: Research and Development

PROCUREMENT SPEND	B-BBEE SPEND	B-BBEE PROCUREMENT SPEND ON RECOGNITION LEVELS%		TARGET%
R90 704 911	**R93 215 230**	**102,77%**		**80%**
ENTERPRISE CLASSIFICATION	**AMOUNT PAID**	**B-BBEE SPEND**	**B-BBEE ACTUAL %**	**B-BBEE TARGET%**
Above R35m turnover	R16 413 902	R16 851 408	18,58%	0,00%
QSEs	R12 757 476	R16 536 347	18,23%	15%
EMEs	R26 064 497	R33 080 096	36,47%	15%
Specialised above R50m	R32 309 237	R26 747 380	29,49%	0,00%
Non-Compliant	R3 159 799	0,00	0,00%	0,00%
BOE >51%	R37 964 845	R33 386 391	36,81%	40%
BWOE >30%	R18 724 486	R12 559 380	13,85%	12%
BOE >25%	R44 503 268	R35 362 218	38,99%	0,00%
Military Veterans	0,00	0,00	0,00%	2%
Youth	R8 937 019	R11 877 361	13,09%	2%
Foreign	R74 799	0,00	0,00%	0,00%

INDICATORS	DESCRIPTION	WEIGHTING POINTS	TARGET	ACHIEVED
SUPPLIER DEVELOPMENT	Annual value of all supplier development contributions made by the measured entity as a percentage of the target.	-	0,2% of annual turnover	Nil
ENTERPRISE DEVELOPMENT	Annual value of enterprise development contributions and sector specific programmes made by the measured entity as a percentage of the target.	-	0,1% of annual turnover	Nil
LOCALISATION	Procurement of defence matériel produced and/ or manufactured in RSA by local enterprises.	6	60%	Nil
	Procurement from local enterprises that introduce new locally developed technology in the SADI not older than 24 months.	2	60%	Nil
	Procurement of technologies developed in RSA by local enterprises from IP owned by local enterprises, or technologies developed in RSA by local enterprises from IP licenced thereto by foreign enterprises.	2	60%	Nil
TOTAL		10		

SUPPORTING FUNCTIONS

During the reporting period, R&D met the B-BBEE procurement spend on recognition levels. The following targets have been achieved; procurement from EMEs, QSEs, Black Women Owned Suppliers and Youth. Procurement targets from black owned suppliers and Military Veterans were not met.

There was no spend on Enterprise and Supplier Development.

• Enterprise and Supplier Development Including Military Veterans

- Internet Service Provider Programme

The Enterprise and Supplier Development (ESD) Programme commenced in April 2022. The objective of the programme is to assist and provide small black entities with internet data, so that they may have means to access business opportunities online. Armscor has paid an amount of R2,459,072 as at end of March 2023.

- Incubation For Military Veterans Programme

The ESD Programme commenced in May 2022. The objective of the programme is to create and develop capacity and expertise for Military Veterans so that their businesses become sustainable.

Armscor has paid an amount of R5,560,656 as at end of March 2023.

2.4.2 BUSINESS ENABLEMENT

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

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

Business Enablement is therefore responsible for the following:

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

Marketing and Business Development

Marketing and Business Development continually strives to be more efficient and responsive to the needs of clients by being externally focused with the explicit aim of improving the financial sustainability of the Corporation and that of the local defence industry (SADI). During the reporting period, these are some of the activities conducted.

Industry Marketing Support

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

Defence Marketing Events

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

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

Armscor participated in the following international exhibitions and conferences during the period under review as part of its marketing of Armscor and SADI products and services:

- **Annual Africa Security Symposium (ASEC2022) [May 2022]**

  Armscor participated at the 9th Annual Africa Security Symposium (ASEC2022), which took place from 17 – 18 May 2022 in Nairobi, Kenya. ASEC actively addressed some of the most pressing issues in Africa, with thematic panel discussions.

  ASEC is one of the most productive forums held in Africa to meet and network with high ranking government officials, security experts, and private sector suppliers in a safe, private setting to strategise solutions to Africa's most challenging issues.

  The platform is considered crucial in leveraging Armscor's capabilities, promoting, and positioning Armscor's products. ASEC provided an opportunity to showcase and position Armscor's capabilities as a solution for UN peacekeeping missions in improving their operations capabilities during scheduled one-to-one roundtable meetings. As part of Armscor's positioning at the event, the Divisional Head for Telecommunications and Sensing Systems, chaired panel 6, which discussed the ever-developing mandate of African peacekeepers, the value of stability and growing need for dependable and robust partnerships.

Figure 16: Annual Africa Security Symposium (ASEC2022) Visuals

- **UN Procurement Summit and Exhibition [June 2022]**

  Armscor participated at the UN Procurement Summit and Exhibition on 24 June 2022 at the CSIR. This event was organised by the DOD and Armscor, in partnership with industry association AMD, and supported by the GGDA. The summit's goal was to familiarise South African companies with UN procurement prospects and the requirements for becoming a reputable and leading supplier to the UN, in particular to its peacekeeping and peace support missions in Africa.

SUPPORTING FUNCTIONS

Armscor was a participant of the Local Organising Committee (LOC) as chaired by Deputy Chief of Staff, DOD. The main functions performed by Armscor were:

a. Coordination of the call for papers that were presented at the parallel sessions of the Symposium; this work group was chaired by Executive Manager: R&D.
b. Assistance to AMD with the preparation for the exhibition and Procurement Seminar by the Marketing Team.

- **Africa Aerospace & Defence (AAD2022) [September 2022]**

After a four year hiatus, caused by the COVID-19 pandemic, AAD made a successful return to the international exhibition scene, with the hosting of the 11th edition, held on 21 - 25 September 2022 at Air Force Base Waterkloof. Under the theme: *"Exploring New Paths, Sharing Solutions, Showcasing Innovation and Capabilities,"* the event was led by the South African Aerospace, Maritime, and Defence Industry Association (AMD), as per the AAD Partnership Agreement, which sees the administration of the show rotated among the partners, AMD, Armscor, the Commercial Aviation Association of South Africa (CAASA), supported by the DOD.

AAD has over the years provided an ideal platform for cutting-edge technologies to be unveiled. This show plays a significant role in boosting the local economy – through the SADI. It allows local industry players to benchmark themselves against their global counterparts and competitors.

AAD2022 exceeded all expected outcomes with more than 70% of exhibition space sold to 200 exhibitors from 24 countries. There was a 70/30 local vs international split with nine countries registering as national pavilions. Tùrkiye was the largest national pavilion with over 25 exhibitors. The AAD attracted a bigger African presence with five countries exhibiting namely, DRC, Egypt, Nigeria, Sudan, and Uganda. Besides a strong African delegation presence, 48 delegations from around the world attended. The US Air Force had on display its giant C-17 Globemaster III, a Lockheed Martin C-130J-30 Super Hercules, two aerial refueler aircraft, and a Sikorsky HH60 Pave Hawk helicopter. For the first time ever, AAD flew UAVs, popularly known as drones.

In view of the interest of Small, Medium and Micro Enterprises (SMMEs) companies to gain a foothold in the defence and aerospace sphere, AAD2022, the dtic and the Gauteng Growth and Development Agency (GGDA) hosted two pavilions, with 15 companies.

As in previous years, a key feature was the Youth Development Programme (YDP), which showcased defence and aerospace technologies to 10 000 learners from across South Africa. These learners, besides getting a hands-on exposure to the displays, they got an opportunity to engage with engineers, scientists, and other professionals from organisations like Armscor, the Air Traffic Navigation Services (ATNS), the South African Civil Aviation Authority (SACAA), and defence industry players.

As a precursor and preparation for hosting AAD2022, Business Enablement hosted an AAD Protocol Training and Business Development and Sales work session at Gerotek. This was in order to develop and better prepare members who would be involved in hosting foreign delegations during AAD. This was further enhanced with a work session focused on Business Development and Sales. These interventions assisted Armscor in extracting the best results from its engagements during AAD2022, and also added to the overall achievement of the event.

On 25 September 2022 (last show day), Armscor accepted the responsibility to lead the 2024 AAD edition, scheduled to take place from 18 - 22 September 2024 at Air Force Base Waterkloof.

Figure 17: Africa Aerospace and Defence (AAD2022) Visuals

SUPPORTING FUNCTIONS

- **IDEX/NAVDEX [February 2023]**

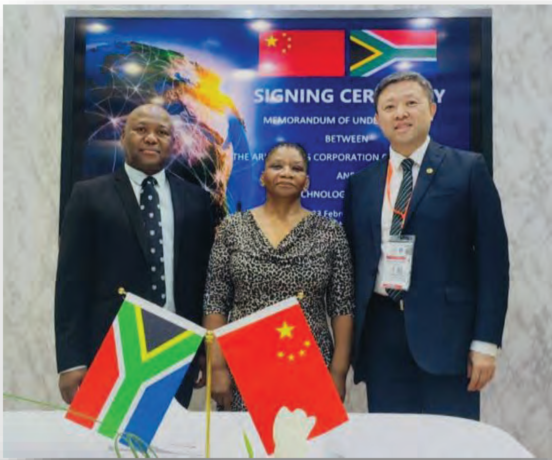
Armscor took part in IDEX/NAVDEX 2023 exhibition held from 20 - 24 February 2023 at the Abu Dhabi National Exhibition Centre (ADNEC), Abu Dhabi as part of South Africa National Pavilion coordinated by the dtic.

IDEX/NAVDEX is the only international defence exhibition in the MENA region (countries situated in/around the Middle East and North Africa) that demonstrates advancements across land, sea and air and serves as a platform for major international companies, government departments, armed forces, naval defence and maritime security companies to showcase their technologies, services, equipment and crafts and also forge new relationships.

This presented a unique opportunity for Armscor to engage decision-makers and specialists; establish and strengthen relationships with government departments, businesses and armed forces throughout the world. Armscor's participation allowed the Corporation to attract potential buyers, distributors and agents, gather trade leads, as well as trade and investment market intelligence.

Armscor delegation used this event to support the Minister of Defence and Military Veterans in promoting brand South Africa; to showcase what SADI can offer in defence technologies and capabilities to the international community; to formulate strategic partnerships with the signing of a Memorandum of Understanding with Poly Technologies; and to support SMMEs to have a presence on the global stage.

Figure 18: IDEX/NAVDEX 2023 Visuals



SUPPORTING FUNCTIONS

Defence Equipment Personnel Support

Armscor provides marketing and matériel aid support to the SADI by facilitating the use of SANDF equipment, personnel and facilities through Defence Equipment Personnel Support (DEPS). This function provides comprehensive guidance on the utilisation of DOD personnel, equipment, matériel and facilities by the SADI in support of their strategic marketing initiatives that are consistent with government and defence policies. During the reporting period, the number of requests increased; reflective of the state of improvement in defence exports in South Africa. However, payments to the DOD decreased from the previous year. DEPS also supported various SADI companies with their marketing export activities to the Middle East and South East Asia countries.

AB Logistics

AB Logistics is a shipping and travel company which provides clearing and freight forwarding plus travel management services to Armscor, the MOD, the DOD, the SADI and commercial clients both domestic and globally.

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

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

ABL is a member of:

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

AB Logistics maintained its position as a registered transporter of hazardous material, weapons and ammunition. Armscor continues to support the SANDF in its joint military exercises with other countries, as well as transporting SANDF equipment for its peacekeeping missions and operations into Africa. ABL was instrumental in transporting SANDF's equipment and personnel to Richards Bay during the Armed Forces Day and deployment of soldiers and military equipment during the OP Vikela Project to Mozambique. Several defence related equipment was transported to the Alkantpan (Northern Cape) for testing.

AB Logistics Travel offers a diversified range of travel arrangement support, including air travel, land travel, car rental, busses, VISA applications and accommodation, and other related services. AB Logistics Travel is a registered member of the International Air Transport Association.

ABL endeavours to increase its financial contribution to the Corporation in the coming years.

SUPPORTING FUNCTIONS

Corporate Communication

Stakeholder management remains one of Armscor's strategic outputs. Armscor strives to build, maintain and strengthen relationships with all its stakeholders. These include providing ongoing support to SADI, communities and other industries. During the reporting period, a number of initiatives was successfully completed in an endeavour to position and enhance the image of Armscor as a good corporate citizen.

Marketing, Advertising and Branding

• Marketing and Advertising

Advertisements, advertorials and marketing material promoting the Armscor brand, capabilities, products and services continued – this is an endeavour to create a positive association and raise the Corporation's Profile. Armscor adopted a more targeted advertising and marketing approach to ensure presence and positioning in relevant publications and media platforms, to maximise on budget and increase return on investment.

• Online and Digital

Online campaigns

Five online campaigns were initiated on the DefenceWeb site during the reporting period, the objective being to promote the Armscor corporate brand and also the AAD2022. In addition, an online campaign was initiated on the Freight News website creating 18 562 impressions with a modest click-through rate to the Armscor website.

Social media posts

During the reporting period, Armscor has increased its presence on social media. This can be attributed to various topical and relevant events that took place namely the AAD2022 show, IDEX/NAVDEX 2023 and the 2023 Armed Forces Day. These interactions drove traffic towards the Armscor website. The number of followers has proportionally increased on all social media platforms namely: Twitter, Instagram Facebook and LinkedIn.

• Stakeholder Management: External Communication

During the reporting period, Armscor strategically engaged external stakeholders through targeted campaigns to keep them abreast of developments and activity around Armscor:

Events and Engagements

• Commissioning of the new vessel - SAS Sekhukhune I [June 2022]

The Chief of the South African Navy commissioned the first multi-mission inshore patrol vessel (MMIPV) on 15 June 2022 at Salisbury Island, Durban – which Armscor was part of. The new vessel (P1571) named SAS King Sekhukhune I was the first of it's class of vessels acquired under Project Biro.

Figure 19: Commissioning of the new vessel – SAS Sekhukhune I Visuals

From L to R: Chief of the South African Navy, Vice Admiral Mosiwa Hlongwane, Chief of the South African National Defence Force, General Rudzani Maphwanya, Minister of Defence and Military Veterans, Ms Thandi Modise, Chief Executive Officer of Armscor, Adv. Solomzi Mbada and Chairman of the Damen Shipyards Cape Town Board, Mr Sam Montsi during the signing

The Queen of the Bapedi Nation, Queen Manyaku Thulare-Hlapogadi a Phaahla and members of the Bapedi Royal family gives blessing to the new vessel named SAS King Sekhukhune I.

• Blessing Ceremony at Damen Shipyards Cape Town [October 2022]

On 14 October 2022, the SA Navy held a blessing ceremony for the second of three Multi-Mission Inshore Patrol Vessels (MMIPV) at Damen Shipyards Cape Town (DSCT). The Chief of the SANDF, representatives from Armscor, the SA Navy and other key stakeholders witnessed the blessing of the vessel, a long tradition within the maritime industry of wishing a ship safe journeys and travels. The vessel is a deliverable of Project Biro, part of the SA Navy's efforts to safeguard South Africa's maritime environment, strengthening the country's capability to respond effectively, rapidly, and cost-efficiently to threats such as illegal trafficking and fishing. A media statement on the event was issued by Armscor.

Figure 20: Vessel Blessing Ceremony at Damen Shipyards Visual

• Armed Forces Day [February 2023]

Armscor supported the Armed Forces Day, which took place from 15 – 22 February 2023 at Richards Bay, KwaZulu-Natal. This event is an initiative of the SANDF held annually to commemorate those who died in the line of duty and recognises those who continue putting their lives at risk to protect sovereignty of the country.

The main event was held on 21 February 2023, where the President of South Africa, Mr Cyril Ramaphosa paid tribute to the South African soldiers who died when the military SS Mendi ship sank in February 1917. The President performed a wreath laying ceremony at the Empangeni Civic Centre, before he took the salute from a mass parade to commence the Armed Forces Day. Armscor was among stakeholders who promoted their bursary opportunities during career exhibition days held at uMhlathuze Sports Complex.

Figure 21: Armed Forces Day Visuals

SUPPORTING FUNCTIONS

Stakeholder Satisfaction Survey

Armscor conducted the Stakeholder Engagement Survey using an independent research agency to understand the extent to which the needs of a service provider or clients are being met; understand the perceptions of the stakeholders to ensure that Armscor performs optimally and to identify areas of Armscor's performance that can be improved. The feedback indicated that Armscor has a good relationship with its stakeholders and it is still perceived in a positive image. Table 14 summarises key findings from the survey:

Table 14: Stakeholder Index Score

	Stakeholder Index Score				Rating Category
	2016/17	2018/19	2020/21	2022/23	
Satisfaction with Armscor	7.5	7.3	7.3	7.2	Above-average rating (6.1 – 7.4)
External Supplier's Satisfaction with Departments	7.2	7.2	8.0	7.3	Above-average rating (6.1 – 7.4)
External Client's satisfaction with Departments	7.7	7.4	7.6	7.1	Above-average rating (6.1 – 7.4)
Performance on key service areas	-	8.4	7.9	6.9	Above-average rating (6.1 – 7.4)
External Client's Perceptions of Armscor on key service areas	-	8.5	7.9	7.1	Above-average rating (6.1 – 7.4)
External Supplier's Perceptions of Armscor on key service areas	-	8.3	7.9	6.8	Above-average rating (6.1 – 7.4)

Corporate Social Investment

Armscor is a socially responsible Corporation that supports communities in which it operates. The focus is on education to assist learners from previously disadvantaged communities to improve their performance and results in Science, Technology, Engineering and Mathematics (STEM) subjects and social upliftment initiatives. Corporate Communication continues to implement the Corporate Social Investment (CSI) in line with the established CSI Best Practice.

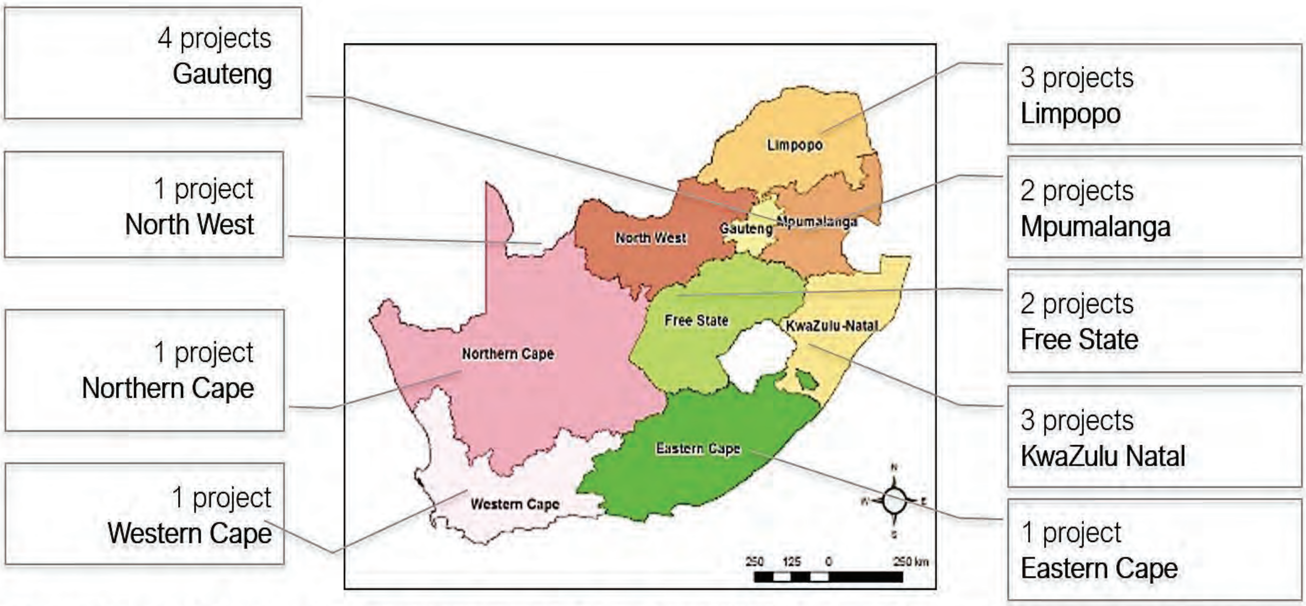
The CSI funding criteria is divided into two components namely: Human Capital Development Programme and Socio-Economic Upliftment Programme.

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

Despite the limited resources at its disposal, Armscor through its CSI activity will continue to support programmes aimed at uplifting deserving communities as summerised in Figure 22.

SUPPORTING FUNCTIONS

Figure 22: Armscor's CSI National Footprint



- *This national footprint is based on the projects implemented in the 2022/2023 financial year. It does not includes projects from previous years.*

Table 15: Corporate Social Investment Projects

Province	CSI Activity
Limpopo	Support provided towards the catch-up programmes for maths and science extra classes in three different schools.
	Provided chairs, ports, gas stove, gas cylinder, mattresses, blankets and jungle gym to early childhood development centre.
	Provided food parcels and school uniforms to deserving learners.
North West	Full school uniform purchased for learners from various schools in the province.
Mpumalanga	Study material and playgrounds secured for two Early Childhood Development centres.
	Supplied food parcels to four identified homes in Mpumalanga
Gauteng	Support provided towards the accommodation and transport costs for participants of a workshop hosted by Umkhonto We Sizwe Liberation War.
	Academic support provided to learners with a focus on STEM subjects (to sharpen their understanding of key concepts and prepare them for their final examinations).
	Feeding scheme support provided to charities in Alexandra and Soweto.
	Support provided in the form of school uniform to deserving learners in the region.
Western Cape	Support provided towards community outreach and education programmes
Northern Cape	Supported the social relief and learner enhancement projects by contributing towards the installation of industrial fans, kitchen extractor fan, storage containers, sheltered garage, and renovations of ceiling, doors, roof painting and windows.
KwaZulu-Natal	Provided social relief in the form of bottled water, food and clothes to flood victims in KwaZulu-Natal.
	Supported the feeding scheme project for learners in need.
	Awarded top 10 matric learners with laptops.

SUPPORTING FUNCTIONS

Province	CSI Activity
Free State	Provided elderly people with blankets and dignity packs.
	Provided learners with school uniform and stationery in the Free State province.
Eastern Cape	Armscor purchased materials to refurbish the old age home, provided learners with school shoes and blankets for pensioners.

2.4.3 CORPORATE SUPPORT

As a service Corporation, Armscor's people are its backbone and the need to maintain capabilities has increasingly become the main area of challenge from the point of view of human capital management.

This is in line with Armscor's strategy to consistently improve organisational effectiveness and customer service, through effective ICT systems. Personnel security, information security and physical security, within Armscor and the Defence Related Industry, forms part of the overall security governance. Maintenance of the infrastructure and operational procurement activities required by the Corporation, is the responsibility of the Business Unit.

Corporate Support expertise encompasses:

- Transformation
- Learning and Development
- Succession Planning
- ICT Operations
- Enterprise Architecture and Information Management
- Information Security
- Business Support Centre
- Finance; Contract Admin and Governance
- Maintenance of the infrastructure and operational procurement activities
- Security functions

Information and Communication Technology

ICT Digitisation Strategy

Armscor is currently undergoing a digital transformation journey. This is necessary to align with new technological advancements taking place in the business world. In line with this, ICT has formulated the Digitisation Strategy. The aim of the strategy is to automate and modernise Armscor business processes. The digitisation strategy further aims to map a direction towards enhancing the ICT complexion of Armscor in its entirety. The implementation of the digital strategy will be phased over three years, undergoing approval processes.

Enterprise Resource Planning

Armscor has restarted the process to acquire and implement an Enterprise Resource Planning (ERP) system. The ERP forms a major part of the digitisation strategy and aims to automate key business functions i.e. Supply Chain Management (SCM), Finance and Human Resources and Payroll. The plan is to place the order in the 2023/24 financial year. The implementation is planned to occur over the next two years.

Armscor Connect - Video Conferencing Solution

Armscor has embarked on the development of an Armscor-owned video conferencing (VC) solution. Through the journey towards digital transformation, the Armscor-owned VC solution will provide for virtual collaboration environment with both internal and external stakeholders, in a secure manner. The development for the solution, termed Armscor Connect, is at an advance stage. Armscor Connect is planned to go-live in the 2023/24 financial year.


ARMSCOR


ARMSCOR


ARMSCOR

PART C:

HUMAN CAPITAL MANAGEMENT

GATEWAY TO DEFENCE SOLUTIONS

ARMSCOR

Armaments Corporation of South Africa SOC Ltd

HUMAN CAPITAL MANAGEMENT

3.1 HUMAN CAPITAL MANAGEMENT

Human Resource function provides leadership in the development, implementation and administration of sound human resources policies, procedures and programmes that support Armscor's statutory mandate. Its main goal is to be responsive to the changing needs of its stake-holders, including employees, management, employee organisations and other defence-related entities, while advancing the strategic outputs and interests of Armscor.

Human capital remains the most valuable asset for Armscor and plays a pivotal role towards the achievement of Armscor's objectives. Arms-cor is committed to investing in human capital (as well as in technology), which will ensure that it thrives in delivering quality service to the client. Therefore, Human Resource function deploys diverse human resource interventions to enhance the effectiveness of Armscor through its people. Hence the need to build and maintain a positive organisational reputation as an employer of choice both with internal and external stakeholders; to transform and to be representative and credible within the broader socio demographics; to acquire and retain skills; to advance females and people living with disabilities; skills development and transfer of skills; to offer rewarding careers to high-performing employees; employee wellness programmes; and implement succession plans to grow specialised skills required within the defence sector. While all these happen within the ambit of the internal organisational environment, the external influences cannot be ignored.

Staff Profile and Employment Equity

Armscor strives to create and retain a diverse workforce at all levels of the Corporation, both as a competitive advantage and to ensure achievement of its transformation outputs. To this end, the Corporation is committed to recruitment and retention of a competent workforce that is truly representative of all sectors of society. This goal should be achieved while managing personnel cost.

Table 16 demonstrates the Armscor staff profile for the 2022/23 financial year, inclusive of employees on the Graduate Programme and fixed-term contract employees. The total staff complement at the end of the reporting period was 1 374.

Table 16: Armscor Staff Profile

STAFF PROFILE AS AT 31 MARCH 2023											
OCCUPATIONAL CATEGORY	**AM**	**AF**	**CM**	**CF**	**IM**	**IF**	**WM**	**WF**	**Total Male**	**Total Female**	**Grand Total**
Top Management	4	0	0	0	0	0	1	0	5	0	5
Senior Management	27	18	4	0	4	0	19	1	54	19	73
Middle Management	139	108	28	6	15	5	60	23	242	142	384
Skilled	159	174	125	44	4	10	10	33	298	261	559
Semi-Skilled	59	16	75	8	1	0	9	0	144	24	168
Unskilled	26	45	1	7	0	0	0	0	27	52	79
TDPs	10	21	0	0	0	0	1	0	10	22	32
Fixed-Term Contractors	22	18	7	19	0	1	5	2	34	40	74
Grand-Total	446	400	240	84	24	16	104	60	814	560	1 374
% Representation	**88,06**						**11,94**		**59,24**	**40,76**	

HUMAN CAPITAL MANAGEMENT

The core of Armscor's business is centred within the following occupations: Science, Engineering, Technical and Technical Support (SETTS). The total number of employees within this category is currently 49,13% as demonstrated in Table 17 below.

Table 17: Staff Profile by Function

ARMSCOR STAFF PROFILE BY FUNCTION – 2022/23 FINANCIAL YEAR									
	OCCUPATIONAL CATEGORY								
Function	Unskilled	Semi-Skilled	Skilled	Middle Man.	Senior Man.	Top Man.	TOTAL	% of Staff compliment	Technical Cat. %
Engineering	0	0	3	108	34	0	145	10,55	49,13
Science	0	0	5	29	5	1	40	2,91	
Technical	0	1	225	102	7	0	335	24,38	
Technical Support	0	126	29	0	0	0	155	11,28	
Finance	0	0	51	20	3	1	75	5,46	50,87
IT	0	0	30	23	4	0	57	4,15	
Professional Support	0	0	28	96	21	3	148	10,77	
Support	101	52	248	18	0	0	419	30,50	
TOTALS	**101**	**179**	**619**	**396**	**74**	**5**	**1 374**	**100**	

Turnover Rate

The corporate target for controllable staff turnover in technical positions, excluding retirements, should be less than or equal to 4%. For the 2022/23 financial year, the staff turnover in the technical functions are:

- Science – 16,67%
- Engineering – 5,67%
- Technical – 3,12%.

As indicated above, the Corporation saw the highest turnover rate as compared to previous years. This report covers Voluntary Turnover Rate (The rate at which employees enter and voluntarily leave a company in a given financial year).

Table 18: Terminations – (Excluding Retirements, Death, VSPs and Contracts Expired)

	OCCUPATIONAL CATEGORY								
Function	Unskilled	Semi-Skilled	Skilled	Middle Man.	Senior Man.	Top Man.	Total Termina-tions	No of Empl (Permanent Empl only)	Turnover rate per Function
Engineering	0	0	0	7	1	0	8	141	5,67
Science	0	0	0	5	1	0	6	36	16,67
Technical	0	0	7	3	0	0	10	321	3,12
Technical Support	0	4	0	0	0	0	4	148	2,70
Finance	0	0	1	2	0	0	3	69	4,35
IT	0	0	5	4	0	0	9	52	17,31
Professional Support	0	0	0	8	6	1	15	131	11,45
Support	0	1	8	1	0	0	10	370	2,70
TOTALS	**0**	**5**	**21**	**30**	**8**	**1**	**65**	**1 268**	

HUMAN CAPITAL MANAGEMENT

Learning and Development

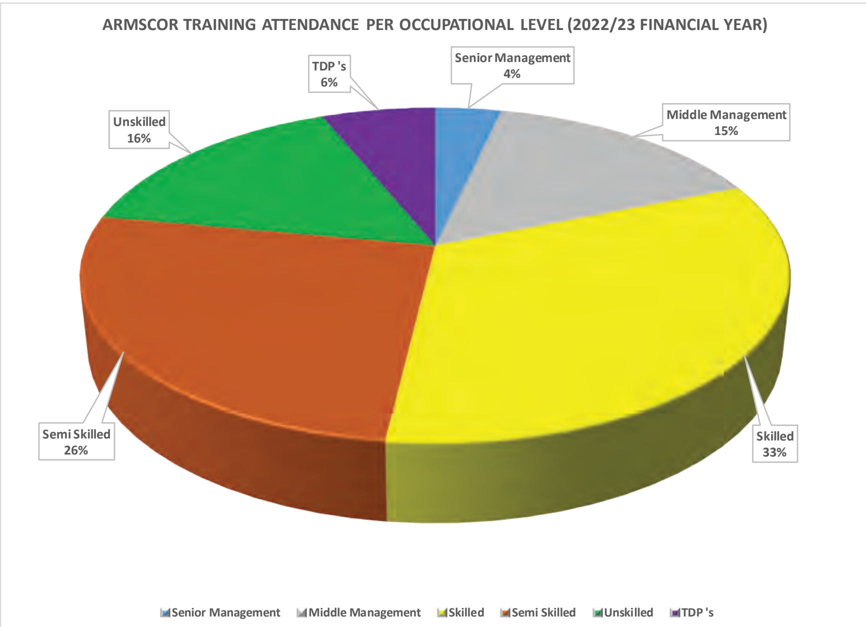
Through its learning and development platforms, Armscor continues to invest in employee development. To sustain its growth and performance, Armscor has been upskilling and reskilling its employees through different learning platforms. During the reporting period, employees participated in the following key learning platforms: conferences/seminars/workshops, technical training, compliance training, essential training, formal studies and leadership and management development. The implementation of the learning solutions happened through both virtual and face-to-face approaches, with face-to-face being mostly used.

Armscor continues investing in employee development in the 2023/24 financial year, with priority on leadership development initiatives and technical training.

Training Attendance

The overall training attendance, per occupational level, during the 2022/23 financial year is reflected in Figure 23:

Figure 23: Percentage training attendance per occupational level



The overall training attendance rate is a huge success given the investment that the Corporation has been putting in place over the years. This is a confirmation that Armscor values its human resources, hence the overall investment on skills development initiatives.

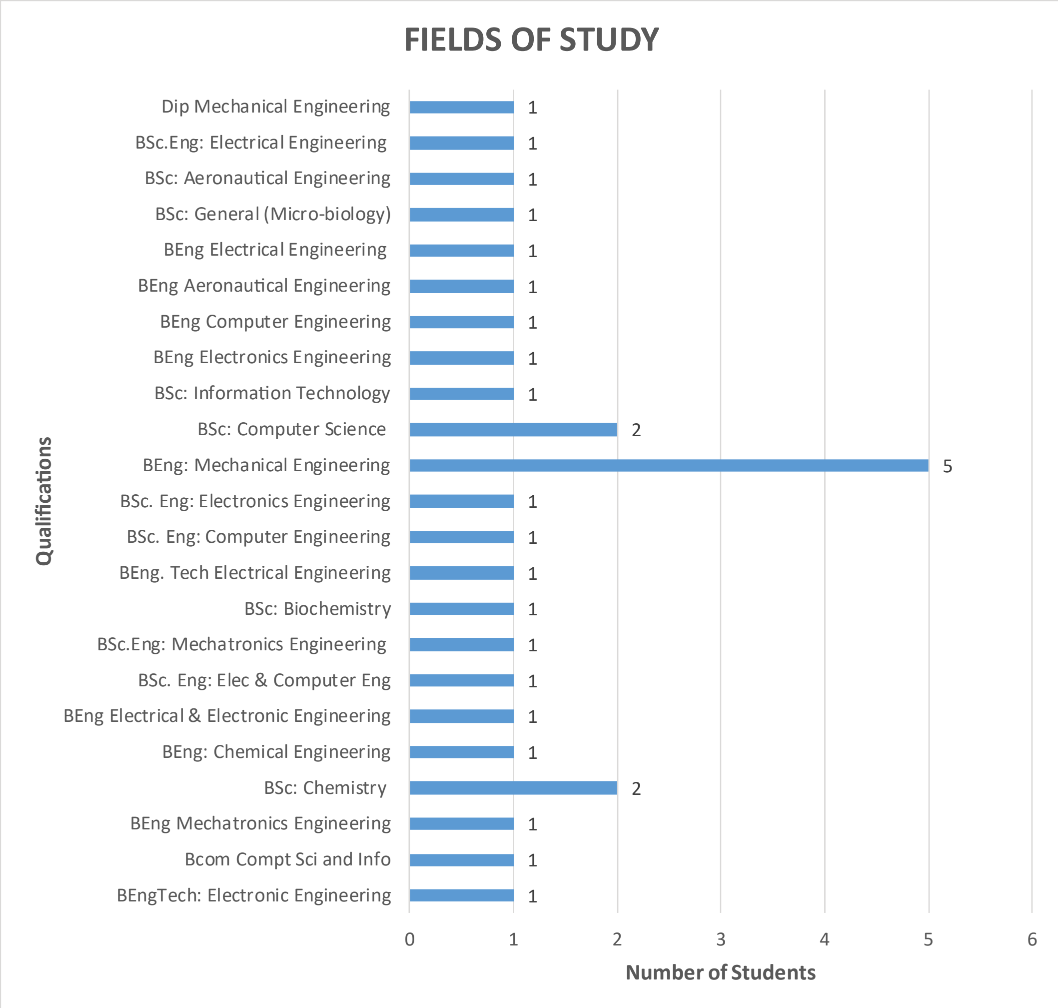
Staff Bursaries

As part of its commitment towards staff development, Armscor provides the employees with bursaries to further their studies at undergraduate or postgraduate level. The fields of study sponsored and the number of bursaries awarded are determined annually with due consideration of changing circumstances, availability of funds, and the human capital requirements as well as qualifications essential for the functioning of Armscor.

External Armscor Bursary Scheme

In order to attract young talent into the Corporation, Armscor offers bursaries to external students to study towards disciplines in line with the current critical and scarce skills. Thirty eight (38) bursary holders were funded for the 2022 academic year. The disciplines that these students are studying are within the Armscor critical and scarce skills. This is to ensure that the Corporation has a large pool of young future recruits.

Figure 24: Fields of study



Graduate Programme

The Graduate Programme is a development initiative that gives meaningful work experience to young, passionate graduates that have just completed their university studies. The graduates are exposed to a myriad of exciting and innovative opportunities available in the Corporation and the broader defence industry. This programme is also used as part of the succession planning intervention. Thirty Two (32) students are currently participating in the programme and are placed in different Business Units within the Corporation.

Youth Development programmes

Armscor, as an agency of the DOD, conducts career exhibitions throughout the year with the emphasis on encouraging learners to study STEM related subjects. The aim is to expose learners to various careers in the defence space, and to develop and empower them to take future roles in the industry. Armscor has over the years being involved in assisting learners especially from disadvantaged backgrounds to further their studies and develop critical skills to be able to participate in the mainstream economy.

Activations

- **Youth Development Programmes AAD Exhibition 2022**

Apart from the main defence exhibition, Armscor also took part in the Youth Development Programme (YDP) exhibition with other companies in the defence industry. The AAD YDP attracts Grade 10 to 12 learners from previously disadvantaged backgrounds with the aim of creating awareness of careers in the STEM related sectors including the aerospace, aviation and defence industries. This programme is a central marketing tool to the youth of South Africa. Although significantly smaller in numbers from 2018, the designed programme was as interactive and educational as possible. Armscor's YDP activation is presented in Table 19, reflecting all schools that participated:

Table 19: AAD YDP School Activation

School	Province	Learners	Educators	Date
Kgomotso High School	Northern Cape	5	1	21 September
Gauteng High Schools	Gauteng	30	2	21 September
Mpumalanga High Schools	Mpumalanga	10	2	21 September
Free State High Schools	Free State	30	5	21 September
ABS Students	Country wide	6	0	21 September
Madlanga High School	KwaZulu-Natal	5	1	22 September
Toise High School	Eastern Cape	6	1	22 September
Limpopo High Schools (Science Centre)	Limpopo	15	4	22 September
Mpumalanga High Schools	Mpumalanga	20	4	22 September
Jiba Snr Secondary School	Eastern Cape	5	1	22 September
Mandela School of Science & Technology	Eastern Cape	5	1	22 September
Ithemba Labs	Western Cape	5	1	23 September
Zodwa Special School	Gauteng	3	1	23 September
Mjindi Secondary	KwaZulu-Natal	6	1	23 September
Refilwe High School	Limpopo	5	1	23 September
Gariep High School	Northern Cape	3	1	23 September

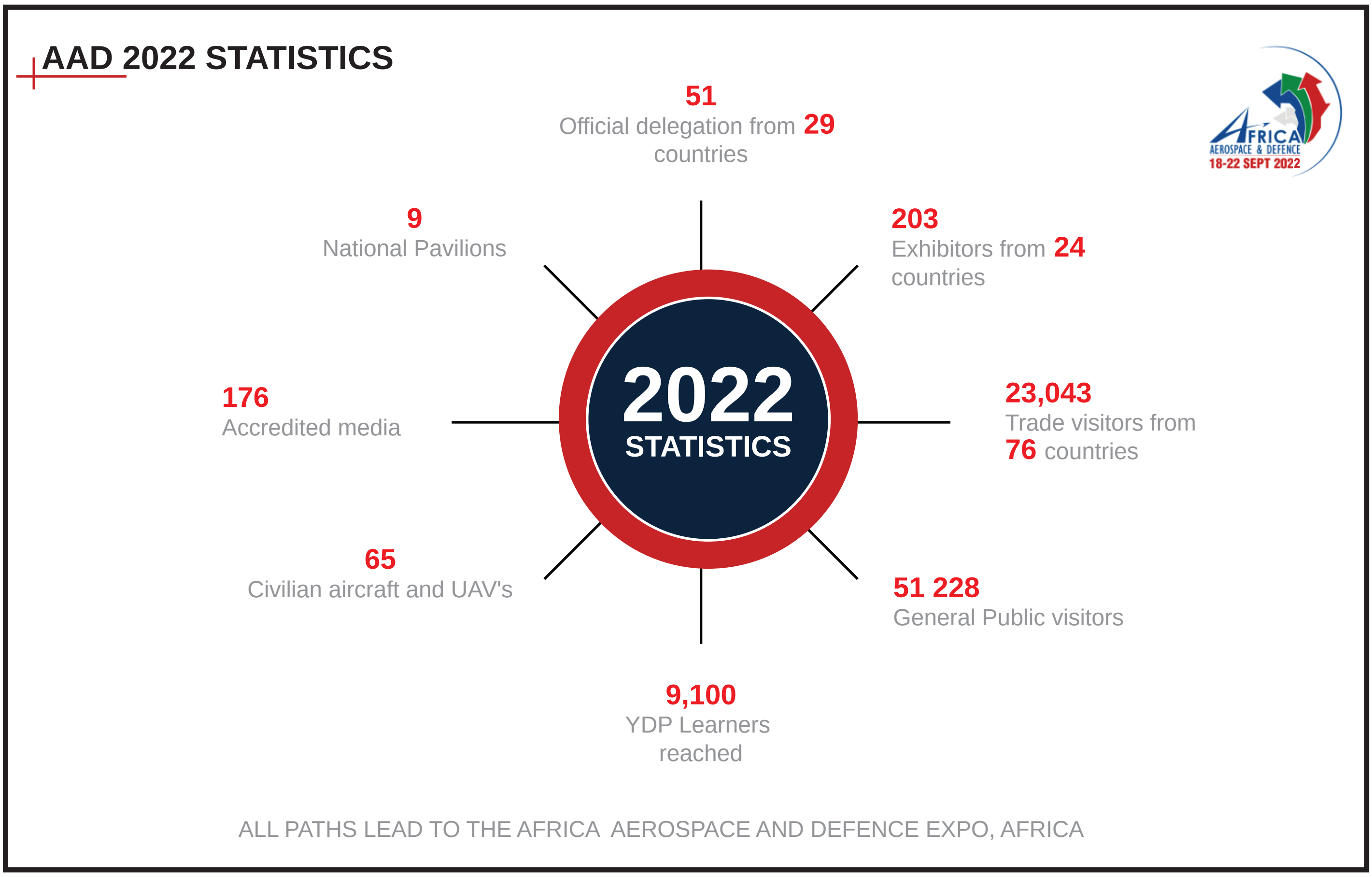
Over and above learners for specifically identified schools, Armscor also hosted learners identified by specific provincial Departments of Education, as reflected in Table 20:

Table 20: AAD YDP School Activation

Province	Learners	Educators	Date
Gauteng	30	2	21 September
Free State	30	5	21 September
Mpumalanga	20	4	22 September

Learners from outside of Gauteng were transported (flights and by road where applicable) and accommodated in Tshwane, as well as during the visits to Air Force Base Waterkloof. The Human Resource Learning and Development Team has received many compliments from some of the participating schools, thus attesting to the significance and impact that the programme had. According to the overall AAD 2022 statistics, the YDP reached 9 100 learners.

Figure 25: AAD 2022 STATISTICS



- **South African Army Expo**

Armscor YDP supported the Career Expo Day hosted by Armscor and the SA Army on 19 November 2022 at Mount Huxley, a combat training centre in the Northern Cape. The day was celebrated in style where learners from various schools in John Taolo Gaetsewe and Tsantsabane Districts Municipalities were hosted. About 846 learners from 37 schools graced this event.

This gave learners an opportunity to interact with members of the SANDF and explore specialised equipment used by the military to protect the sovereignty of the country.

- **International Civil Aviation Day**

Armscor was invited to exhibit at the commemoration of International Civil Aviation on 2 - 3 December 2022, at the Heidelberg Airport. South Africa is a Member State of the International Civil Aviation Organisation (ICAO), which is a specialised agency of the United Nations (UN) on matters of civil aviation.

The aim of the International Civil Aviation Day Career Expo is to give exposure to Grade 8 – 12 learners, who are doing Mathematics, Physical Science and Commercial subjects, to a range of careers available in the aviation as well as wider transport sector. The targeted schools were those located in historically disadvantaged areas of Sedibeng Municipality. The event was attended by 200+ learners accompanied by their educators.

- **Armed Forces Day 2023**

Armscor YDP supported the Armed Forces Day 2023 career exhibition hosted by the DOD from 15 - 19 February 2023 in Richards Bay, KwaZulu-Natal. The aim of the career exhibition was to empower the community and youth of Richards Bay and surrounding areas with knowledge about different career opportunities within the defence industry. The exhibition was attended by 4 000 high school learners daily.

- **Youth-Workforce Development Programme**

The purpose of this programme is to address the youth unemployment challenge, specifically underprivileged young people and youth living with disability. Armscor partnered with the Gauteng City Region Academy (GCRA) to implement Youth-Workforce Development Programme. Learners have been placed on this programme for a period of six months. There is potential to grow the programme in future.

PART D:

CORPORATE GOVERNANCE

GATEWAY TO DEFENCE SOLUTIONS

ARMSCOR
Armaments Corporation of South Africa SOC Ltd

CORPORATE GOVERNANCE

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

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

4.1 GOVERNANCE FRAMEWORK

Key Legislation

- Armscor Act
- Public Finance Management Act
- Companies Act

Policies and procedures in place

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

Governance principles

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

4.2 DIRECTOR'S REPORT

Introduction

This is the Directors' Report for the period 2022 - 2023 and relates to the performance of the Corporation for the reporting period.

Background

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

Nature of Business

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

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

The functions of Armscor are to:

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

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

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

Share Capital

The Government of the Republic of South Africa is the sole shareholder of the Corporation. No new shares were issued during the reporting period.

Organisational Structure

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

CORPORATE GOVERNANCE

Communication with the Executive Authority

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

Directorate

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

4.2.1 CORPORATE GOVERNANCE

Armscor is a statutory body, established in terms of the Armscor Act. It is also a State Owned Company as contemplated in the Companies Act. Furthermore, it is listed as a Schedule 2 Public Entity in terms of the PFMA, as amended. It is further regulated by the Regulations issued in terms of the PFMA and those of the Companies. Armscor also subscribes to good corporate governance principles contained in the King IV Report on Good Corporate Governance for South Africa 2016, and Protocol on Corporate Governance in the Public Sector 2007.

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

The Shareholder

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

In accordance with the Shareholder's Compact, the Minister must meet the Board of Directors at least once a year. During the reporting period, the Minister met with the Board on 9 May 2022.

4.2.2 THE BOARD OF DIRECTORS

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

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

During the reporting period, the Board executed its roles in accordance with the Board Charter. Board roles included:

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

Board meetings

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

At each meeting, the members of the Board are required to declare any interest they may have in respect of any matter to be decided at that meeting. The declaration of interest is handled as stipulated in the Board Charter. During the reporting period, one member declared interest on the matter serving before the Board and was excused during the discussion of the item. In preparing documents for submission to the Board, Management is required to certify that all relevant information has been placed before the Board to enable the Board to make decisions that serve the interests of the Corporation.

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

During the reporting period, the Corporation held four Board meetings, and nine Special Board meetings. Table 21 and 22 reflects the meetings of the Board respectively.

Table 21: Board of Directors and attendance of meetings

Board of Directors and Attendance of Meetings				
Board Member	**22/6/2022**	**29/8/2022**	**2/12/2022**	**28/2/2023**
Dr. PD Dexter (Chairperson)	P	P	P	P
Mr MS Motimele (Deputy Chairperson)	A	A	A	A
Amb. JT Ndhlovu	A	P	P	P
Dr. RC Lubisi	P	P	P	P
Ms BF Skweyiya-Gushu	P	P	P	P
Ms R Matenche	P	A	A	P
Ms PN Mashinini	P	P	P	P
Mr TM Sukazi	P	A	A	A
Adv. SP Mbada (CEO)	P	P	P	P
Mr JG Grobler (CFO)	P	P	P	P

Key: P – Present A – Absent with apology
**** Mr MS Motimele (Deputy Chairperson) – Resigned on 30/4/2022***

Table 22: Special Board of Directors and attendance of meetings

Special Board of Directors and Attendance of Meetings									
Board Member	**28/4/2022**	**02/6/2022**	**28/7/2022**	**27/10/2022**	**15/12/2022**	**27/1/2023**	**31/1/2023**	**08/3/3023**	**27/3/2023**
Dr. PD Dexter (Chairperson)	P	P	P	P	P	P	P	P	P
Mr MS Motimele (Deputy Chairperson)	P	A	A	A	A	A	A	A	A
Amb. JT Ndhlovu	P	P	A	P	A	P	P	P	P
Dr. RC Lubisi	P	P	P	P	P	P	P	P	A
Ms BF Skweyiya-Gushu	P	P	P	P	P	P	P	P	P
Ms R Matenche	P	P	P	P	A	P	P	P	P
Ms PN Mashinini	P	P	P	P	P	P	P	P	P
Mr TM Sukazi	P	A	A	A	A	P	P	A	P
Adv. SP Mbada (CEO)	P	P	P	P	A	P	A	A	A
Mr JG Grobler (CFO)	P	P	P	P	A	P	P	P	P

Key: P – Present A – Absent with apology
**** Mr MS Motimele (Deputy Chairperson) – Resigned on 30/4/2022***

Table 23: Special Board of Directors (In-committee) and attendance of meetings

Board Member	28//9/2022
Dr. PD Dexter (Chairperson)	P
Mr MS Motimele (Deputy Chairperson)	A
Amb. JT Ndhlovu	P
Dr. RC Lubisi	P
Ms FB Skweyiya-Gushu	P
Ms R Matenche	P
Ms PN Mashinini	P
Mr TM Sukazi	A
Adv. SP Mbada (CEO)	A
Mr JG Grobler (CFO)	A

Key: P – Present A – Absent with apology
**** Mr MS Motimele (Deputy Chairperson) – Resigned on 30/4/2022***

Board Engagements with the Portfolio Committee on Defence and Military Veterans

As prescribed in the Shareholder's Compact, the Board of Directors as the accounting authority for the Corporation shall present the Corporation's Annual Report, Financial Statements and Corporate Plan for the reporting period to the Minister as a representative of the Shareholder. The Minister Tables the reports in the National Assembly in the presence of members of the Board. Before these reports are Tabled at the National Assembly, the Board presents the reports to the Portfolio Committee on Defence and Military Veterans (PCDMV). Table 24 provides information about the Board engagements with the PCDMV.

Table 24: Portfolio Committee on Defence and Military Veterans and Attendance of Meetings

Board engagements with Portfolio Committee on Defence and Military Veterans and Attendance of Meetings						
Board Member	4/5/2022	12/10/2022	1/3/2023	8/8/2023	15/3/2023	27/3/2023
Dr. PD Dexter (Chairperson)	P	A	A	A	A	A
Mr MS Motimele (Deputy Chairperson)	A	A	A	A	A	A
Amb. JT Ndhlovu	P	P	A	A	P	A
Dr. RC Lubisi	P	A	A	P	A	A
Ms FB Skweyiya-Gushu	P	P	A	P	P	A
Ms R Matenche	P	P	A	P	A	A
Ms PN Mashinini	P	P	A	P	P	P
Mr TM Sukazi	P	A	A	A	A	A
Adv. SP Mbada (CEO)	P	P	P	A	P	A
Mr JG Grobler (CFO)	P	P	P	P	P	P

Key: P – Present A – Absent with apology
**** Mr MS Motimele (Deputy Chairperson) – Resigned on 30/4/2022***

Disqualification of Directors

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

Board Remuneration

Non-executive Directors are remunerated on the basis of Board and Board Committee meetings attendance and preparation. The fees are based on the determination by the Minister of Defence and Military Veterans in consultation with the Minister of Finance.

4.2.3 BOARD COMMITTEES

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

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

Audit and Risk Committee

The report of the Audit and Risk Committee Chairperson (Point 4.5), outlines the terms and reference of the said Committee.

During the reporting period, the Committee had the following scheduled meetings and special meetings, as reflected in Table 25,Table 26 and Table 27:

Table 25: Audit and Risk Committee meetings

Members	26/5/2022	26/7/2022	25/11/2022	20/2/2023
Ms R Matenche (Chairperson)	P	P	P	P
Dr. RC Lubisi	P	P	P	P
Ms FB Skweyiya-Gushu	P	P	P	A
Mr TM Sukazi	A	A	A	A
Adv. SP Mbada (CEO) *(Attendee)*	P	P	P	P
Mr JG Grobler (CFO) *(Attendee)*	P	P	P	P
Independent Member				
Mr D Mathebula	P	P	P	P

Key: P – Present ***A – Absent with apology***

CORPORATE GOVERNANCE

Table 26: Special Audit and Risk Committee meetings

Special Audit and Risk Committee and Attendance of Meetings	
Members	**24/10/2022**
Ms R Matenche (Chairperson)	P
Dr. RC Lubisi	P
Ms FB Skweyiya-Gushu	P
Mr TM Sukazi	A
Adv. SP Mbada (CEO)	P
Mr JG Grobler (CFO)	P
Independent Member	
Mr D Mathebula	P

Key: P – Present ***A – Absent with apology***

Table 27: Special Audit and Risk (In-Committee) meetings

Special Audit and Risk Committee and Attendance of Meetings	
Members	**20/09/2022**
Ms R Matenche (Chairperson)	P
Dr. RC Lubisi	P
Ms FB Skweyiya-Gushu	P
Mr TM Sukazi	A
Adv. SP Mbada (CEO)	A
Mr JG Grobler (CFO)	A
Independent Member	
Mr D Mathebula	P

Key: P – Present ***A – Absent with apology***

Technology, Industry Support and Sustainability Support Committee

The Technology, Industry Support and Sustainability Committee consists of a minimum of three non-executive directors and two executive directors (being the CEO and the CFO).

The main role and responsibilities of the Committee as outlined in the Committee's Terms of Reference is to advise the Board on the following:

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

During the reporting period, the Committee had the following scheduled meetings and special meetings, as reflected in Table 28

Table 28: Technology, Industry Support and Sustainability Committee Meetings

Technology, Industry Support and Sustainability Committee and Attendance of Meetings				
Members	20/5/2022	15/7/2022	4/11/2022	15/2/2023
Dr. RC Lubisi (Chairperson)	P	P	P	P
Mr MS Motimele	A	A	A	A
Amb. JT Ndhlovu	P	A	P	P
Ms FB Skweyiya-Gushu	P	P	P	P
Adv. SP Mbada (CEO)	A	P	P	P
Mr JG Grobler (CFO)	A	P	P	P

Key: P – Present A – Absent with apology
****Mr MS Motimele (Deputy Chairperson) – Resigned on 30/4/2022***

Acquisition Committee

The Acquisition Committee consists of a minimum of three non-executive directors and two executive directors (being the CEO and the CFO).

The acquisition of defence matériel requirements of the DOD is one of the main objectives of the Corporation as set out in Section 3(1) (a) of the Armscor Act. As such, the role of the Committee is to assist the Board with the balancing of power and the effective discharge of its responsibilities by:

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

During the reporting period, the Committee had the following scheduled meetings and special meetings, as reflected in Table 29 and Table 30.

Table 29: Acquisition Committee meetings

Acquisition Committee and Attendance of Meetings								
Members	**7/4/2022**	**23/5/2022**	**14/7/2022**	**18/7/2022**	**15/9/2022**	**14/11/2022**	**17/2/2023**	**27/3/2023**
Mr TM Sukazi (Chairperson)	P	P	P	P	P	P	P	P
Mr MS Motimele	P	A	A	A	A	A	A	A
Ms PN Mashinini	P	P	P	P	P	P	P	P
Amb. JT Ndhlovu	A	A	A	A	A	A	P	P
Adv. SP Mbada (CEO)	P	P	P	A	A	P	P	A
Mr JG Grobler (CFO)	P	P	P	P	P	P	P	P

Key: P – Present   A – Absent with apology
****Mr MS Motimele (Deputy Chairperson) – Resigned on 30/4/2022***
****Amb. JT Ndhlovu – Member since 28/9/2022***

Table 30: Special Acquisition Committee meetings

Members	27/4/2022	29/8/2022
Mr TM Sukazi (Chairperson)	P	P
Mr MS Motimele	P	A
Ms PN Mashinini	P	P
Amb. JT Ndhlovu	A	A
Adv. SP Mbada (CEO)	P	P
Mr JG Grobler (CFO)	P	P

Key: P – Present   A – Absent with apology
****Mr MS Motimele (Deputy Chairperson) – Resigned on 30/4/2022***
****Amb. JT Ndhlovu – member since 28/9/2022***

Human Resources, Social and Ethics Committee

The Human Resources, Social and Ethics Committee consists of a minimum of three non-executive directors and two executive directors (being the CEO and the CFO).

The role of the Committee is to assist the Board with the balancing of power and the effective discharge of responsibilities by:

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

During the reporting period, the Committee had the following scheduled meetings and special meetings, as reflected in Table 31 and Table 32.

Table 31: Human Resources, Social and Ethics Committee meetings

Human Resource, Social and Ethics Committee and Attendance of Meetings				
Members	**25/5/2022**	**13/7/2022**	**3/11/2022**	**13/2/2023**
Ms PN Mashinini	P	P	P	P
Amb. JT Ndhlovu	A	A	P	A
Ms R Matenche	P	P	P	P
Adv. SP Mbada (CEO)	P	P	P	P
Mr JG Grobler (CFO)	P	P	P	P

Key: P – Present   A – Absent with apology

Table 32: Special Human Resources, Social and Ethics Committee meetings

Special Human Resource, Social and Ethics Committee and Attendance of Meetings	
Members	**24/10/2022**
Ms PN Mashinini	P
Amb. JT Ndhlovu	P
Ms R Matenche	P
Adv. SP Mbada (CEO)	P
Mr JG Grobler (CFO)	P

Key: P – Present

Military Veterans Committee

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

- Ms FB Skweyiya-Gushu
- Dr RC Lubisi
- Amb. JT Ndhlovu
- Dr PD Dexter

The Committee consists of a minimum of three non-executive directors and two executive directors (being the CEO and the CFO). The role of the Committee is to assist the Board with the balancing of power and the effective discharge of responsibilities by advising the Board on:

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

During the reporting period, the Committee held four Committee meetings as reflected in Table 33:

Table 33: Military Veterans Committee meetings

Military Veterans Committee and Attendance of Meetings				
Members	**25/5/2022**	**20/7/2022**	**26/10/2022**	**13/2/2023**
Mr MS Motimele (Chairperson)	A	A	A	A
Dr. PD Dexter	A	A	P	P
Amb. JT Ndhlovu	A	A	P	P
Ms FB Skweyiya-Gushu	A	A	P	P
Adv. SP Mbada (CEO)	A	A	P	P
Mr JG Grobler (CFO)	A	A	P	P

Key: P – Present   A – Absent with apology
****Mr MS Motimele (Deputy Chairperson) – Resigned on 30/4/2022***
****Dr. Dexter - Member since 28/9/2022***

4.3 FINANCIAL REPORTING

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

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

The Directors are of the opinion that the financial statements fairly represent the financial position of the Corporation as at 31 March 2023; the results of their operations and cash flows for the year ended.

The Board has reviewed the Group's financial budgets for the period 1 April 2022 - 31 March 2023 and is satisfied that adequate resources exist to sustain the Corporation's operations. Armscor is, furthermore, in discussion with the DOD to ensure proper funding for the required functions to be performed. The Directors, therefore, have no reason to believe that Armscor will not remain a going concern in the foreseeable future.

Dividends

No dividends were declared or paid to the shareholder during the reporting period.

Post Balance Sheet Events

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

4.4 LITIGATION

In relation to special defence acquisition done for the DOD, the following were instituted against Armscor:

Beverly Securities

The claim instituted by Beverly Securities Ltd and Beverly Securities Inc in the Civil Court of Lisbon is for commission in the amount of €192 million against Armscor for services allegedly rendered by Plaintiffs. The matter is related to the acquisition of 50 Oryx helicopters in kit form during the 1980s. The existence of an agency agreement wherein Armscor appointed Plaintiffs to assist as intermediary in establishing a clandestine Portuguese channel is in dispute. The preparation for the hearing started during January 2023. The matter was enrolled for trial for 13 - 17 March 2023. Following consultations with the external legal representatives of Armscor, all preparations were finalised. The matter was further postponed for hearing for the period of 12 - 22 September 2023.

CORPORATE GOVERNANCE

Quaker Peace Centre

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

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

Alternatively an order is sought directing the Defendants to tender the return of the aircraft acquired to the Third Defendant (Seller) against repayment of all amounts paid to the Third Defendant. Armscor and the relevant Government departments are defending the matter and have filed pleas in the defence of the matter. The Plaintiff has not proceeded to apply for a court date. Particulars of claim were amended during April 2021 with no material amendments. The Plaintiff further filed an intention to amend its particulars on 21 February 2023 with no material amendments to the Plea filed. The Plaintiff has not approached the Court for a court date.

Patria Land OY

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

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

The Plaintiff proceeded to file the amended particulars of claim. In the amended particulars of claim, the Plaintiff has included an additional claim in respect of goods packages that were not included in the initial claim. The claim amounted to €17 562 575,82 plus R258 168,19. Armscor responded and filed its plea. Armscor has paid all invoices that are payable in terms of the conditions of the contract. The Plaintiff has not approached the court for a trial date.

Steradian Energy (Pty) Ltd

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

Steradian claims that their tender was accepted by Armscor by a written or partially written oral contract. As a result of the cancellation of the tender, Steradian claims that it suffered damages amounting to approximately R205 200 000,00.

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

The Plaintiff did not respond in time and has not filed a reply. Subsequently, the Plaintiff has filed the intention to amend the particulars of claim and appointed new attorneys. The notice of amendments is cosmetic in nature and increased the Plaintiff's claim, however, they still do not affect the exception filed by Armscor that the Plaintiff's particulars have a cause of action. The Plaintiff's new attorneys have also withdrawn as attorneys of record. Armscor will proceed to set the matter down and bring it to finality.

Aqua Marine Boats and Accessories

During 2016 Armscor, placed a three (3) year order KT545653 with Aqua Marine Boats and Accessories t/a 2000 Pretoria Yamaha, with a provision to repair Yamaha outboard engines from the 2016/17 to 2018/19 to the total value of R959 998,00. The Contractor repaired 26 Yamaha Outboard engines and an amount of R175 438,00 was paid to the Contractor for services rendered. However, the Contractor failed to deliver the Yamaha Outboard engines to the SA Army depot as contracted. Armscor was later made aware that the Contractor was under liquidation and that 19 engines are in the possession of a third party.

Armscor has subsequently been able to communicate with the third party that is in possession of the assets. It was agreed that Armscor shall provide sufficient proof of ownership of the said assets as ownership was in dispute. The matter was also reported to the Military Police who was requested to consider the attachment of the engines as it should be regarded as stolen property. The Military Police did not proceed with the attachment of the assets as a result of insufficient proof of ownership of the engines. The third party submitted a settlement proposal, to be paid R500 000,00 for the release of the engines. Armscor approached the third party regarding its settlement proposal; however, they subsequently declined to negotiate the settlement offer further. The matter was reported to the Special Investigating Unit for investigation.

Duma Healthcare (Pty) Ltd

The Plaintiff is Duma Healthcare (Pty) Ltd, a local company who has submitted a bid for the Procurement of General Hospital Equipment for SAMHS. An order was placed in respect of the tender. Armscor is cited as the Defendant. The claim amounts to R7 415 624.00, for alleged breach of contract. Armscor is disputing this claim as in terms of the contract conditions, time was of the essence in the delivery of all items. Duma Healthcare failed to perform in accordance with the delivery conditions. A plea was filed by Armscor and the matter is proceeding in the normal course.

In relation to operational matters, the following litigation was instituted by Armscor:

Gauteng Department of Health

The Gauteng Department of Health (“GDoH”) contracted Armscor through its division Protechnik Laboratories for the supply and delivery of hand sanitisers and surface disinfectants. This contract was as a result of a quotation issued by Armscor for the supply of the hand sanitizers and surface disinfectants (9 600 L of each) amounting to R29 193 557.76 dated 17 July 2020. Subsequently, a purchase order was issued to Armscor to the total amount of R30 730 080. Protechnik Laboratories made deliveries as required in the order amounting to R5 608 852.83 (Inc VAT) of which R4 041 829.73 was paid under the invoices that were submitted.

Armscor demanded payment of the outstanding invoices without success. Notwithstanding numerous requests to GDoH to resolve the dispute in terms section 41 (1) of the Intergovernmental Relations Framework Act (IRFA). Armscor received no responses. Armscor proceeded to issue summons for the recovery of the outstanding amount.

A Special Plea was then filed on behalf of the Defendant and they have requested an indulgence from Armscor to engage their client on the matter and possibly get a settlement. Armscor granted the indulgence until 31 January 2023. The Defendant has to date not scheduled discussions with Armscor through the state attorney. Armscor proceeded to instruct its attorney to set the matter down on 18 July 2023. The matter is proceeding in the normal course.

4.5 REPORT OF THE AUDIT AND RISK COMMITTEE

The report on the activities of the Audit and Risk Committee has been prepared as prescribed by the PFMA, read together with the provisions of National Treasury Regulations, and in line with King IV. The Audit and Risk Committee was constituted as a Committee of the Board to fulfil statutory duties in terms of Section 51(1) (a) (ii), Section 76 and Section 77 of the PFMA, read together with National Treasury Regulation 27 and Section 94(7) of the Companies Act, as well as all other duties assigned to it by the Board.

Audit and Risk Committee Terms of Reference

The Committee reviewed its Terms of Reference to comply with changes in legislation, business circumstances, corporate governance principles, King IV and applicable best practices and such were approved by the Board of Directors. The Committee confirms that it has complied with its Terms of Reference and other statutory obligations during the reporting period.

The Committee assists the Board in fulfilling its oversight responsibilities with regard to the evaluation of the adequacy and efficiency of accounting policies, internal controls, financial and corporate reporting processes, risk management and compliance. The Committee further assesses the effectiveness of the internal auditors and the independence and effectiveness of the external auditors.

Composition and Number of Meetings

The Committee must consist of at least three independent non-executive members who are appointed by the Board of Directors. The members of the Committee must collectively have sufficient qualifications and experience to fulfil their duties, including an understanding of financial and sustainability reporting, internal financial controls, external audit and internal audit processes, corporate law, risk management, information technology and corporate governance. The Committee further has a right to co-opt a suitable external individual to enhance the capacity and capability of the Committee.

During the 2022/23 financial year, the Committee consisted of the following members:

a. Ms Refilwe Matenche (Chairperson & Non-Executive member)
b. Dr Cassius R Lubisi (Non-Executive member)
c. Ms Fundiswa B Skweyiya-Gushu (Non-Executive member)
d. Mr Thimothy Sukazi (Non-Executive member)
e. Mr Duke Mathebula (Independent Non-Executive member)

The following officials and persons attend all meetings of the Committee by permanent invitation:

a. Chief Executive Officer
b. Chief Financial Officer
c. Chief Risk Officer or any person performing the risk function
d. Chief Audit Executive
e. Executive Manager: ICT
f. Executive Manager: Cyber-security
g. Company Secretary and
h. Representative from external auditors (Auditor-General of South Africa (AGSA))

The external auditors attend the Committee meetings and have unrestricted access to all Committee meetings. The external auditors and internal auditors are afforded an opportunity to meet with the Committee in the absence of management quarterly or as and when the need arises.

The Committee held six meetings during the reporting period as reflected in Table 34.

Table 34: Audit and Risk Committee meetings

Name of Member						
	26/5/2022	26/7/2022	20/9/2023	24/10/2022	25/11/2022	20/2/2023
Ms Refilwe Matenche	P	P	P	P	P	P
Dr. Cassius Lubisi	P	P	P	P	P	P
Ms Fundiswa B Skweyiya-Gushu	P	P	P	P	P	A
Mr Thimothy Sukazi	A	A	A	A	A	A
Mr Duke Mathebula	P	P	P	P	P	P

Key: P – Present A – Absent with apology

Activities of the Committee for 2022/23 financial year

The main activities undertaken by the Committee during the reporting period are summarised as follows:

During the 2022/23 financial year, the Committee:

a. Considered the 2021/22 financial year draft Annual Financial Statements with management and assurance providers, and made recommendation to the Board for approval and submission to AGSA for audit purposes.
b. Considered and concurred that the adoption of the going concern premise in preparation of the 2021/22 financial year Annual Financial Statements was appropriate.
c. Considered and recommended the 2021/22 financial year Annual Report to the Board.
d. Considered and recommended to the Board the 2021/22 financial year Fourth Quarterly Performance Information and Financial Reports, First, Second and Third Quarterly Performance Information and Financial Reports for 2022/23 financial year.
e. Reviewed, deliberated and approved the External Audit Annual Plan, Audit Fee and related scope of work for the financial year ended 31 March 2023.
f. Reviewed significant accounting practices, judgments and estimates adopted by Armscor in the application of the applicable Financial Reporting Standards and found such to be appropriate.
g. Reviewed the report of AGSA concerning the effectiveness of Armscor's internal control environment and ICT Governance.
h. Considered with management the quality and effectiveness of AGSA's process, areas of concern and the improvement plans being developed to mitigate identified risks. Monitored progress on the 2021/22 financial year audit action plans.

The Committee ensures that an effective Internal Audit Function is in place and that Internal Audit roles and functions are sufficiently clarified and co-ordinated so as to provide an objective overview of the operational effectiveness of Armscor's system of internal control, risk management, governance and reporting.

During 2022/23 financial year, the Committee:

a. Reviewed and approved the Internal Audit Charter.
b. Reviewed the objectives and the operations of the Internal Audit Function and the adequacy of available resources.
c. Reviewed and approved the 2022/23 financial year Internal Audit Plan and the rolling three-year plan.
d. Considered Internal Audit's Quarterly Reports relating to the effectiveness of Armscor's internal control environment, systems and processes, together with the adequacy and appropriateness of the related management's corrective action plans.
e. Considered the effectiveness of the Internal Audit Function.
f. Considered Hotline Reports and the progress in addressing reported incidents.
g. Received no complaints relating to the accounting practices and internal audit of Armscor, and the content or auditing of its financial statements, the internal financial controls of Armscor or other related matters.

The Committee, after considering, analysing, reviewing and debating information provided by management, Internal and External Auditors, concluded that the internal controls have been effective in all material aspects throughout the 2022/23 financial year.

The Committee has to provide oversight over financial reporting made by Armscor by contributing to the objectivity and credibility of such financial reports. The Committee examined and reviewed the Annual Financial Statements for the financial year ended 31 March 2023, and the accompanying reports, prior to approval by the Board and publication.

The Committee further reviewed the Quarterly Financial Reports and also reviewed and discussed with management, the Armscor's group conformance with any financial progress against the approved budget of 2022/23 financial year.

The Board remains responsible for the Risk Management Policy of Armscor and delegated to the Committee the responsibility to oversee the risk philosophy, strategy, and risk management reports. It is also responsible to review the adequacy and overall effectiveness of Armscor's risk management process, the integrity of the risk control systems, and compliance with selected risk policies and the overall risk profile of Armscor. The Committee considers quarterly risk registers' reports on the mitigation of strategic and operational risks and considered the material risks within Armscor to ensure that new and emerging risks were identified, monitored and addressed.

The Committee is satisfied that the following areas have been appropriately addressed:

a. Financial reporting risks.
b. Internal financial controls.
c. Fraud risk related to financial reporting.
d. IT risks related to financial reporting.

During the reporting period, the Committee considered and recommended the following to the Board:

a. 2021/22 financial year Fourth Quarter, First, Second and Third Quarter 2022/23 financial year ICT Governance Reports.
b. 2021/22 financial year Fourth Quarter, First, Second and Third Quarter 2022/23 financial year Corporate Strategic Risk Registers Report.
c. 2022/23 financial year Cybersecurity Capability Plan and Quarterly Cybersecurity Implementation Plan Reports.
d. Quarterly Risk Management Strategy Reports.
e. Quarterly Fraud Risk Registers' Reports.
f. Quarterly Risk Appetite Emerging Risk Reports.

The Committee is satisfied that the mitigation actions for the identified risks have been effective.

The Committee monitors Armscor's compliance with laws and regulations by reviewing the effectiveness of the systems for monitoring compliance with laws and regulations and the results of management's investigation and follow-ups, including disciplinary actions on any fraudulent acts or accounting irregularities.

During the reporting period, the Committee considered:

a. The 2021/22 financial year Fourth Quarter, 2022/23 financial year First, Second and Third Quarterly Litigation Reports.
b. The 2021/22 financial year Fourth Quarter, 2022/23 financial year First, Second and Third Quarterly Regulatory Universe reports.
c. 2022/23 financial year Protection of Personal Information Act Project Plan Reports.
d. Quarterly Reports on Irregular, Fruitless and Wasteful Expenditure.

Other Matters

The Committee recommended the Group Annual Financial Statements to the Board for approval, based on the process and assurances obtained.

On behalf of the Audit and Risk Committee,

Mr TM Sukazi
CHAIRPERSON: AUDIT AND RISK COMMITTEE

PART E:

PFMA COMPLIANCE REPORT

GATEWAY TO DEFENCE SOLUTIONS

ARMSCOR
Armaments Corporation of South Africa SOC Ltd

5.1 Information on Irregular, Fruitless and Wasteful, Unauthorised Expenditure and Material Losses.

Table 35: Reporting of Procurement by Other Means

No.	Project Description	Name of Supplier	Contract Number	Reason for the procurement by other means	Value of contract	Award Date	Contract start date	Contract expiry
1	Appointment of a service provider to conduct investigations on an Urgent and Sensitive Matter.	PWC	N/A	A whistle blower report was received on 1 March 2022. PWC was appointed to conduct a preliminary investigation.	R207 757,85	22-Mar-22	N/A	N/A
2	Urgent procurement for Wheel Chair repairs.	Shoprider	DV104464	Wheelchairs required an urgent specialist attention to ensure full, safe and compliant working conditions.	R48 018,04	13-June-22	13-June-22	08-Jul-22
3	Rental of mobility standby generator to provide power to the client (DOD) during power disruptions.	RP Electrical and Pools Constructions (Pty) Ltd	KB423875	Power cuts negatively affect some of the key areas in DOD. These areas are not connected to the emergency power network.	R993 475,78	3-May-22	3-May-22	N/A
4	Stand structure and prints.	RYCE Design	RR82548	Armscor will be participating at the Africa Security Symposium from 17-18 May 2022, Nairobi, Kenya. This is Urgent due to tight timelines to execute the event.	R51 980,00	4-May-22	4-May-22	N/A
5	Urgent procurement on standby call out for UPS, standby generators, switchgears and transformers.	SGM Electrical power suppliers	RR80835	UPS is supplied by backup generators during power supply interruptions and supplies critical loads (IT and telecommunication systems), SGM has installed the mobile generator and has done repairs on the stationary generators, it's prudent to have them on standby as they are familiar with the plant and recent changes on it.	R47 882,20	31-May-22	31-May-22	31-May-22
6	Urgent appointment of a temporary service provider for hygiene service at Armscor HQ.	Bidvest services cc	RR83918	Tshiamo chemistry appointed on 25 April 2021 as a service provider has abandoned the contract, which the Legal Division was informed, an urgent appointment had to be in place to address the health hazards.	R249 480,00	26-May-22	26-May-22	25-May-23
7	Repairs to IMT Tektronix MDO3024 oscilloscope and Tektronix AFG3101 function generator equipment-forms part of an insurance claim.	Repair & Metrology Services (Pty) Ltd	DI020127	Repair & Metrology Services (Pty) Ltd is the appointed authorised Repair and Calibration agent of Tektronix instrumentation by the OEM in Germany. Sole source supplier approved by the EM: R&D Operations on 26/4/2022.	R43 802,73	25-May-22	25-May-22	03-Aug-22

No.	Project Description	Name of Supplier	Contract Number	Reason for the procurement by other means	Value of contract	Award Date	Contract start date	Contract expiry
8	Order for payspace annual renewal for a period of 12 months.	Business Connection (Pty) Ltd	KB423892	The current payspace licenses are valid for Armscor to use until 31 July 2022. In light of the delays experienced, with the ERP tender pro-cess. The payroll module will not be available by 1 August 2022.	R609 396,91	01-Aug-22	01-Aug-22	31-Jul-23
9	Procurement for fire detection and evacuation system repairs.	Multinet Systems (Pty) Ltd	KA913197	Technicians were urgently needed to work on older ZITON panels and evacuation systems. The systems are in the process to be replaced, however, they need to be operating until the system have been replaced.	R22 300,00	14-Jul-22	14-Jul-22	26-Jul-22
10	Continuation of work.	Acctech Systems (PTY) Ltd	ADI00240	With Acctech systems being involved in the re-installation, customisation, optimisation and providing ongoing customer support of financial systems to Armscor, which provides them with an in-depth knowledge of Armscor network infrastructure configuration.	R134 745,50	24-Aug-22	01-Aug-22	31-Jul-23
11	Appointment of a supplier to supply and deliver IJ40/50 Ink cartridge.	Hasler Business Systems (Pty) Ltd	KA913201	Hasler business systems (Pty) Ltd are the sole suppliers of Neopost/Quotient range of office automation products and all associated con-sumables for South Africa.	R3 887,00	03-Aug-22	03-Aug-22	04-Aug-22
12	Renewal of guardian software licenses for a period of 12 Months.	Lucidview (Pty) Ltd	KA913204	The cost of replacing the guardian devices with new devices will exceed the cost of renewal, as there will be a need for new configuration and training of the network engineers. Guardian's capabilities are still relevant for rendering the required services.	R408 532,12	24-Aug-22	01-Sep-22	31-Aug-23
13	To provide IMT personnel with knowledge transfer of the Business Process Management (BPM) suite and Management Information System (MIS) maintenance services for a period of 24 months.	Shenoos Trading (Pty) Ltd	DI020082	Shenoos Trading (Pty) Ltd is the sole appoint-ed South African representative of Ultimus GmbH, situated in Germany, which is qualified to perform configurations on the BPM software suite of products and conduct maintenance services in order for the MIS software suite to run efficiently.	R257 792,00	31-Aug-22	31-Aug-22	30-Aug-24
14	Renewal of SURMA MG-I software service agreement for a period of 12 months.	SURMA LTD	DI020213	Approved Sole source supplier who has the only capability to provide continued support for the magnetic Inverse Modelling Software and Licenses.	R89 451,00	29-Sep-22	29-Sep-22	30-Sep-23

PFMA COMPLIANCE REPORT

No.	Project Description	Name of Supplier	Contract Number	Reason for the procurement by other means	Value of contract	Award Date	Contract start date	Contract expiry
15	Printer hardware repairs.	Ndiza Information Systems cc	KA913218	The emerged urgent need to repair out of warranty printers prompted deviations from the normal procurement processes.	R82 198,73	26-Sep-22	26-Sep-22	10-Oct-22
16	Procurement of Signal, Distress, Day and Night, No1 MK5 for SA Air Force.	PW Defence UK	KP548466	Sole-source, as PW Defence Limited are the Original Manufacturers of the SDDN.	R456 334,56	15-Aug-22	08-Sep-22	20 Weeks after receipt of UK export license
17	Maintenance and Support Services for the Static, Mobile and Tactical Electronic Warfare Systems for the Department of Defence.	GEW Technologies (Pty) Ltd	KT545283	GEW Technologies (Pty) Ltd is the main contractor involved in providing and implementing the original electronic warfare system. They have gained considerable expertise during the process and have since rendered the support for approximately 40 years.	R36 098 246,00	18-Aug-22	15-Aug-22	31-Jul-23
18	Purchasing of AAD2022 Tickets.	Computicket	SCM00446	Computicket was the sole trader for the ADD2022 tickets.	R10 000,00	21-Sep-22	21-Sep-22	21-Sep-22
19	To provide scientific support for magnetic and electric field signature management for a period of 24 months.	South African National Space Agency (SANSA)	DI020106	Approved sole source supplier who has the only capability to provide magnetic and electric field signature management support.	R1 900 000,00	07-Sep-22	07-Sep-22	06-Sep-24
20	Procurement of a 610 Communication Motherboard for the C-200 Ergospirometry Schiller Machine and testing of the functionality of 610 motherboard post replacement.	Tecmed (Pty) Ltd	ET004452	Supplier is a sole provider for a 610 Communication Motherboard.	R50 632,50	12-May-22	12-May-22	30-May-22
21	Bioelectrical Impedance Analysis Quadscan 4000 electrodes for analysing body fat composition of 500 SANDF members.	LifeMax (Pty) Ltd	ET004478	Supplier is a sole provider for the Bioelectrical Impedance Analysis Quadscan 4000 electrodes.	R23 780,00	06-Oct-22	06-Oct-22	19-Oct-22
22	Renewal of SURMA MG-I Software service agreement for a period of 12 months.	SURMA Ltd	DI020213	SURMA Ltd is the sole supplier who can supply the required software and support services.	R89 451,00	09-Sep-22	29-Sep-22	30-Sep-23
23	Calibration of RESON TC4040 reference hydrophone.	NATIONAL PHYSICAL LABORATORY (NPL) UK	DI020195	NPL UK is the OEM and sole supplier who can perform the calibration of the reference hydrophone.	R51 135,69	20-Oct-22	20-Oct-22	25-Nov-22

PFMA COMPLIANCE REPORT

No.	Project Description	Name of Supplier	Contract Number	Reason for the procurement by other means	Value of contract	Award Date	Contract start date	Contract expiry
24	Repairs to IMT TDK-LAMBDA GEN300-17-3P DC POWER SUPPLY.	ACCUTRONICS (PTY) LTD	DI020238	Accutronics (Pty) Ltd is the sole representative for the OEM TDK lambda Ltd in the South African region.	R29 800,00	17-Nov-22	17-Nov-22	15-Dec-22
25	Renewal of VOYAGER Basic Server Maintenance License for a period of 2 years.	VOYAGER SEARCH USA	DI020240	Voyager Search USA is the sole supplier who can supply the required software and support services.	R69 750,00	14-Nov-22	14-Nov-22	31-Oct-24
26	Renewal of Trueconf licenses.	Secure Meetings UAB	SCM00433	Secure meetings is an authorised OEM distributor of the license, which is currently used by Armscor.	R25 211,30	29-Sep-22	03-Oct-22	30-Sep-23
27	Hosting of stakeholders at a soccer game.	Sail Rights Commercialisation (Pty) Ltd	11/PL1481	Tickets used to engage stakeholders during the soccer game.	R43 527,50	26-Oct-22	26-Oct-22	26-Oct-22
28	Additional VIP Corporate gifts for AAD 2022.	Tribecca Supplies (Pty) Ltd	KA913214	Due to delays in confirmation of attendance by the stakeholders resulted in disruption in procurement planning and execution of the process.	R23 659,00	21-Sep-22	22-Sep-22	22-Sep-22
29	Urgent procurement for Armscor Thaba Tshwane office geyser replacement.	Masindi small works	KA913225	Geyser burst and resulted in an urgent requirement at Armscor Thaba Tshwane site office.	R6 487,79	04-Nov-22	04-Nov-22	04-Nov-22
30	Repair and Service of Lawn mowers.	Lawnmower City Midrand cc	KA913222	Garden machines required an urgent send for strip and quote.	R23 451,33	25-Oct-22	25-Oct-22	25-Oct-22
31	Renewal of Aris software subscription licences for a period of 12 Months.	Software AG South Africa (Pty) Ltd	KA913238	The Aris software license is renewed annually per its conditions to avoid service disruptions.	R263 697,28	24-Nov-22	06-Dec-22	30-Nov-23
32	Renewal of open group membership subscription for a period of 12 Months.	Real Time Solutions (Pty) Ltd	KA913240	Real Time Solution is an exclusive representative of The Open Group in South Africa.	R262 898,73	08-Dec-22	16-Jan-23	15-Jan-24
33	Supply and installation, system commission and testing of electronic security systems (Close Circuit Television Video).	Preduse Projects (Pty) Ltd	ZB430796	Preduse Projects (Pty) Ltd recently installed the security system at Armscor building with two-year warranty and the SANDF requested system upgrade to mitigate security risks.	R217 284,17	24-Oct-22	25-Oct-22	30-Nov-22
34	Appointment of Nexia SAB&T as the preferred service provider to conduct Armscor's board strategic risk assessment.	Nexia SAB&T	KA913212	Nexia SAB&T was a successful bidder appointed to conduct Risk Maturity Assessment and commenced from December 2021. for business, the Risk Committee requested that Nexia SAB&T should conduct the Armscor Board Strategic Risk Assessment.	R42 462,00	16-Sep-22	16-Sep-22	30-Nov-22
35	Emergency procurement for fire detection and evacuation system repairs.	Multi-Net Systems (Pty) Ltd	KA913197	Urgent need for a technician to work on older ZITON panels and evacuation system.	R22 300,00	14-Jul-22	08-Jul-22	27-Jul-22
36	Emergency procurement for switch gear repair.	RP Electrical and Pools Constructions (Pty) Ltd	KB423909	RP Electrical and Pools Constructions (PTY) Ltd who is currently contracted on generator upgrade project to execute the repair to ensure full control over the repairs to avoid further delays.	R279 910,00	02-Dec-22	02-Dec-22	08-Dec-222

No.	Project Description	Name of Supplier	Contract Number	Reason for the procurement by other means	Value of contract	Award Date	Contract start date	Contract expiry
37	Urgent order for supply, install and commission a 50KVA UPS are Armscor.	RP Electrical and Pools Constructions	PO021772	The procurement for 50KVA 400V UPS to be supplied, installed and commissioned onsite as soon as possible to allow business continuity when load shedding is experienced while a permanent solution is in process.	R1 086 750,00	06-Feb-23	06-Feb-23	06-Feb-23
38	Order for repairs of MIG welder for Armour development.	Preweld (Pty) Ltd	KA913243	The machines have to be stripped, assessed and after assessment, the service will be able to provide a quotation for the repairs that needs to be done.	R11 444,50	14-Feb-23	14-Feb-23	24-Feb-23
39	Replacing an extractor fan for the fume hoods at the Protechnik laboratories.	X-link Systems cc and Airflow Lab Systems (Pty) Ltd	PO021789 and PO021790	X-link Systems cc PO021789 R10 825,18 and Airflow Lab Systems (Pty) Ltd PO021790 R43 890,00. The extractor fan of the filtration fume hood in the containment laboratory stopped working. The temperature was high. This lab is Biosafety level 3 that stores very toxic and hazardous chemical and biological agent. To prevent the spread of these gases and endanger individuals at the Protechnik site and surroundings. This is the reason for the emergency approach.	R54 715,18	02-Feb-23	02-Feb-23	07-Feb-23
40	Renewal of Aris Software Licenses.	Software AG (Pty) Ltd	KA913246	Aris software licences are maintained by Software AG (Pty) Ltd which is the OEM.	R408 867,08	17-Mar-23	29-Mar-23	28-Mar-24
41	Renewal of Sage ERP Software assurance programme for Armscor.	Acctech Systems (Pty) Ltd	KA913245	Sage software licences are issued by the OEMs and only released to an appointed service provider, which is 4Sight AccTech. 4Sight has a legal agreement with Armscor expiring 31 July 2023.	R440 812,76	17-Mar-23	17-Mar-23	22-Feb-24
42	Renewal of K2 Workflow subscription with Nintex for a period of 12 Months.	K2 Workflow South Africa (Pty) Ltd	DV108876	K2 Workflow application was installed and supported by K2 Workflow South Africa (Pty) Ltd. The supplier merged with Nintex and became sole distributor of the application.	R111 891,78	14-Mar-23	02-Mar-23	01-Mar-24
43	Telecommunication service provider for Armscor for a period of 2 years.	Telkom SA SOC (Pty) Ltd	KB423920	Sourcing new telecommunication will be costly on installation of new infrastructure and installation will not meet the required timescales for new PABX upgrade project. A new competitive process will begin once the commissioning of the Armscor PABX replacement project is successfully completed.	R239 889,54	16-Mar-23	16-Mar-23	31-Mar-25

No.	Project Description	Name of Supplier	Contract Number	Reason for the procurement by other means	Value of contract	Award Date	Contract start date	Contract expiry
44	Upgrade and Support Arms control Asset tracking system (ACATS) for 12 months.	nTIER ERP (Pty) Ltd	RR72953	nTier developed ACATS and gained extensive knowledge of arms control processes therefore, it is in the best position to continue providing the service to Armscor.	R818 000,00	13-Mar-23	30-Jun-23	30-Jun-24
45	Call support service standard package AD audit support.	ITR Technology (Pty) Ltd	RR70651	The support is required to enable the monitoring tool to continue monitoring access to the Armscor domain. ITR Technology (Pty) Ltd is appointed for onsite troubleshooting for AD audit plus for 2 hours at R2000,00 excl. VAT.	R4 000,00	20-Mar-23	31-Mar-23	31-Mar-23
46	Manufacturing of barrels.	Denel Land Systems	RA 0115/22	Denel Land Systems is the sole manufacturer and supplier of 155 mm barrels in South Africa.	R3 332 062,00	14-Dec-22	14-Dec-22	31-May-25
47	Purchasing of a Flight Follower.	Horne Technologies CC	RA 0097/22	Horne Technologies is the sole agent and supplier for the flight follower in South Africa.	R3 621 159,00	06-Dec-22	06-Dec-22	01-Jul-23
48	Purchasing of 155 mm Ammunition.	Rheinmetall Denel Munition	RA 0073/22	Rheinmetall Denel Munitions is the sole supplier of 155 mm ammunition in South Africa.	R6 352 256,00	27-Oct-22	27-Oct-22	31-Mar-23
49	Repair and Upgrade of GV5 Gun Serial Number 20001.	Denel Land Systems	RA 0100/21	Denel Land Systems is the sole manufacturer of the GV5 Gun in the world.	R1 584 919,32	01-Nov-22	01-Nov-22	31-Aug-23
50	Repair and Upgrade of GV5 Gun Serial Number 20254.	Denel Land Systems	RA 0148/22	Denel Land Systems is the sole manufacturer of the GV5 Gun in the world.	R1 795 816,00	10-Feb-23	10-Feb-23	31-Oct-23
51	Supply and delivery of the rotary motion control equipment.	AEROTECH INC. UNITED KINGDOM (UK)	DI020283	Aerotech Inc. UK is the Original Equipment Manufacturer (OEM) of the rotary motion control equipment.	R198 564,33	30-Mar-23	03-Apr-23	01-Oct-24
52	Aluminium Bronze Rods 5kg.	Nhlumo Holdings	RR78058	After holding a site visit only 2 quotes were obtained.	R8 700,00	29-Sep-22	29-Sep-22	29-Sep-22
53	Boige Pins.	Grimms CC	DG015449	Advertised two times, only two quotes where obtained.	R224 983,12	04-Oct-22	04-Oct-22	04-Oct-22
54	Calibration Standard CS24, 100ppm etc.	Atomic Oil	RR78249	Advertised two times, only three quotes where obtained.	R46 035,65	18-Aug-22	18-Aug-22	18-Aug-22
55	Diesel	SA Fuel & Lubricants	RR78057	Advertised three times, only two quotes where obtained.	R255 000,00	29-Sep-22	29-Sep-22	29-Sep-22
56	Fast Cast F180 Part A & Part B, Mould Max 30 Standard etc.	Grey Rose Group	RR77657	Three quotations could not be obtained from suppliers.	R4 325,00	22-Aug-22	22-Aug-22	22-Aug-22
57	Goods transportation from JHB to CPT.	Key Moves	DG015439	Advertised four times, only 1 quote was obtained.	R13 225,00	22-Sep-22	22-Sep-22	22-Sep-22

PFMA COMPLIANCE REPORT

No.	Project Description	Name of Supplier	Contract Number	Reason for the procurement by other means	Value of contract	Award Date	Contract start date	Contract expiry
58	Ingots.	Rerox group	DG015418	Sole supplier.	R75 762,00	16-Aug-22	16-Aug-22	16-Aug-22
59	Installation of Deionised Water Plant.	Greenchan Group	RR65060	Sole provider.	R535 469,90	10-Nov-22	10-Nov-22	10-Nov-22
60	Maintain a Remotre Monitoring System for currently installed RT System.	Integrated Networking	DG015442	Three quotations could not be obtained from suppliers.	R18 276,95	12-Oct-22	12-Oct-22	12-Oct-22
61	Plumbing Material and Other Consum-ables.	Maloke A Phaahla Holdings	RR77691	Three quotations could not be obtained from suppliers.	R288 690,00	20-Sep-22	20-Sep-22	20-Sep-22
62	Repair & Service Cherry Picker etc.	Tan Tak Capital	DG015459	Three quotations could not be obtained from suppliers.	R184 250,00	18-Oct-22	18-Oct-22	18-Oct-22
63	Repair and service of manlif 5Ton Fork-lift as per Annexure A.	Tan Tak Capital	RR64421	After holding a site visit only two quotes were obtained.	R72 956,00	05-Sep-22	05-Sep-22	05-Sep-22
64	Repair, Supply, Deliver and Install Tiling & Plumbing Material.	Masiqhame Trading	RR77853	Three quotations could not be obtained from suppliers.	R197 673,25	03-Oct-22	03-Oct-22	03-Oct-22
65	Terrain Mobile Crane Hire.	Johnson Crane Hire	DG015428	Three quotations could not be obtained from suppliers.	R124 775,00	15-Sep-22	15-Sep-22	15-Sep-22
66	Training Crane/Mobile Elevating.	Ramzik Records	RR77641	Two quotes received, 1 bidder disqualified.	R52 875,00	22-Sep-22	22-Sep-22	22-Sep-22
67	Waste Collection.	Khulani Energy	RR77798	Three quotations could not be obtained from suppliers.	R414 000,00	10-Nov-22	10-Nov-22	10-Nov-22
68	Toroidal rheostat and single phase rectifier.	Como Electical and Services	RR83341	Three quotations could not be obtained from suppliers.	R87 336,75	19-Jul-22	19-Jul-22	19-Jul-22
69	High Pressure Washer.	Matena Trading and Project 42 CC	RR64437	Three quotations could not be obtained from suppliers	R39 077,00	08-Aug-22	08-Aug-22	08-Aug-22
70	White Oak Wood.	GMG Holdings	RR80453	Three quotations could not be obtained from suppliers	R5 875,00	02-Aug-22	02-Aug-22	02-Aug-22
71	Urgent procurement half inch push rub-ber pipe connector with three quarters male threads.	MDW Pneumatic trading	SCM00657	Due to the conditions of the building, there was only one supplier that could offer the required connectors, and the leaks are causing more damages to the building.	R14 605,00	09-Feb-23	09-Feb-23	10-Feb-23
72	SITA - Legacy systems IT support for 2 years.	SITA SOC LTD	DC000057	Sole Source motivated - three months extension was obtained to accommodate the finalising of the new 2 year contract - also as a Sole Source).	R2 473 120,00	22-Sep-21	22-Sep-21	26-Sep-23

No.	Project Description	Name of Supplier	Contract Number	Reason for the procurement by other means	Value of contract	Award Date	Contract start date	Contract expiry
73	To conduct UBRD V5 system Development-Migration of DSP to UBRD RX field hardware and firmware.	IOSYS CC	DI020170	IOSYS CC is the sole supplier and developer of the UBRD firmware and hardware.	R998 400,00	07-Dec-22	18-Jan-23	31-Aug-23

TABLE 36: REPORTING OF EXPANSIONS AND VARIATIONS OF CONTRACTS

No.	Project Description	Name of Supplier	Contract Number	Reason for expansion or variation of contract	Original contract value	Value of contract expansion or variation of contract	Value of previous contract expansion or variation of contract	Award Date	Contract start date	Contract expiry
1	Maintenance of the softcon access control system at Armscor HQ.	BT-SA Bridging Technologies South.	RR74654	30% increase due to a need to install additional electronic security system.	R500 000,00	R150 000,00	N/A	14-Dec-20	14-Dec-20	23-Jan-23
2	Conduct Waterproofing on the WP5 rooftop and bi-annual maintenance services of the parking and WP5 rooftops.	Luvthis Trading & Investments (Pty) Ltd trading as Indawo Construction.	DI020019	Amendment no.3 to increase the order value with R116 900,00 from R584 500,00 to R701 400,00 (excluding VAT) approved on 11 June 2022.	R584 500,00	R116 900,00	N/A	03-Dec-21	14-Apr-22	02-Dec-24
3	ISO Certification Audit at Armscor HQ.	Bureau Veritas South Africa.	KB423852	32,04% increase to make provisions for follow up audit to clear non-conformances identified during the various stages of certification.	R145 060,00	R46 470,00	N/A	21-Sep-21	01-Nov-21	24-Oct-24
4	Maintenance and repair of Tow Trucks and Horse and Trailers.	Sara Glade 80 Enterprise.	KT545881	To sustain operational capability excess of 85% in the SANDF.	R13 043 478,00	R489 178,00	R4 347 826,00	03-Jun-22	13-Aug-22	28-Feb-23
5	Cut, make, Trim and Supply of camouflage trousers to the SA Army.	Kingsgate Clothing (Pty) Ltd.	KT548440	Additional garments offered by the contractor from the fabric.	R337 800,00	R50 670,00	N/A	09-May-22	09-May-22	31-Aug-23

No.	Project Description	Name of Supplier	Contract Number	Reason for expansion or variation of contract	Original contract value	Value of contract expansion or variation of contract	Value of previous contract expansion or variation of contract	Award Date	Contract start date	Contract expiry
6	Upkeep and maintenance of Surface to Air Missile (SAM) system for the Navy.	Denel SOC Ltd /ta Denel Dynamics.	KT467103	Expansion and variation on lapsed contract and this deviation from the National Instruction is in the interest of National Security.	R24 887 500,00	R3 384 000,00	N/A	13-Oct-16	01-Nov-16	28-Feb-23
7	Multi-purpose test and evacuation (T&E) technological capabilities.	Denel SOC Ltd /ta Denel Overberg Test Range.	KT467135	Expansion and variation on lapsed contract and this deviation from the National Instruction is in the interest of National Security.	R289 697 975,86	R80 494 783,00	N/A	10-Feb-17	14-Mar-17	28-Feb-23
8	Appointment of a contractor for the supply, installation commissioning of rental standby generator at Armscor at the Head Office.	RP Electrical and Pool Construction.	KB423875	Extension of the contract is deemed to be an effective procurement approach compared to sourcing for a rental unit through competitive bidding.	R863 891,98	R335 122,45	N/A	03-May-22	03-May-22	30-Nov-22
9	Maintenance and repair of 60 Ton semi-trailer systems.	Afrit Cape Town (Pty) Ltd.	KT545916	Revised and urgent requirement.	R434 782,00	R434 782,00	N/A	23-May-22	01-Jun-22	30-Nov-22
10	Procurement of E Class spares (service kit) for tank transporter Man 40 440 (Shongololo) Products system.	Cardi Holdings (Pty) Ltd.	KT548454	The client (SA Army) indicated that the divisional exercise is planned for October/November 2022 at the Army Battle School Lohatla. The tanks transporters need to be serviced before and after the exercise, additional funds are needed for the service of the tank transporters.	R990 077,90	R848 638,20	N/A	04-Jul-22	15-Sep-22	16-Jan-23

No.	Project Description	Name of Supplier	Contract Number	Reason for expansion or variation of contract	Original contract value	Value of contract expansion or variation of contract	Value of previous contract expansion or variation of contract	Award Date	Contract start date	Contract expiry
11	Procurement of E Class spares (service kit) for Olifant mark 2, mark1A and ARV Products system.	Fossil Asset Management (Pty)Ltd.	KT548457	The client (SA Army) indicated that the divisional exercise is planned for October/November 2022 at the Army Battle School Lohatla. The tanks need to be serviced before and after the exercise, additional funds are needed for the service of the tank.	R1 620 995,00	R844 820,00	N/A	15-Jul-22	25-Nov-22	15-Feb-23
12	Appointment of a contractor for the supply, installation commissioning of 2X rental chiller unit at Armscor head office: Extension of rental period.	Power Compressor Exchange Holdings & Pool Construction.	KB423870	The initial envisaged date for installation of the new chillers was dated 30 September 2022. However, after the project, it was established that the service provider will not be able to deliver by the stipulated date. It is now envisaged to be completed by 6 December 2022.	R792 000,00	R396 000,00	N/A	14-Mar-22	18-Mar-22	30-Dec-22
13	Appointment of a consulting engineer for the supply, installation, commission and decommissioning of HVAC system at Armscor Head Office.	Snapp Consortium (Plantech)	KB423811	The most accurate project cost can only be determined after the appointment of the contractors required to execute the project. It was expected that the order will be amended once the project value is confirmed through the appointment of contractors.	R1 298 350,30	R2 132 235,48	N/A	20-Feb-20	20-Feb-20	01-Aug-23

No.	Project Description	Name of Supplier	Contract Number	Reason for expansion or variation of contract	Original contract value	Value of contract expansion or variation of contract	Value of pre-vious contract expansion or variation of contract	Award Date	Contract start date	Contract expiry
14	Appointment of a contractor for the supply, installation commission of rental standby generators at Armscor Head Office.	RP Electrical and Pool Construction.	KB423875	The project was scheduled to be completed by 22 November 2022. However, the schedule was later reviewed to accommodate the repair of switch gears, which are crucial for the connection of new standby generators.	R993 475,78	R1 333 063,41	R335 122,45	03-May-22	03-May-22	30-Jan-23

PFMA COMPLIANCE REPORT

TABLE 37: IRREGULAR EXPENDITURE

Irregular expenditure reconciliation	**2022/23 R'000**	**2021/22 R'000**
Opening balance	17 456	-
Add: Confirmed expenditure	27 501	17 456
Less: Condoned expenditure	-	-
Less: Expenditure not condoned and removed	-	-
Less: Expenditure recoverable	-	-
Less: Expenditure not recovered and written off		
CLOSING BALANCE	**44 957**	**17 456**

a) Reconciling notes to the annual financial statement disclosure

Description	**2022/23 R'000**	**2021/22 R'000**
Irregular expenditure that was under assessment in 2021/22	495	885
Irregular expenditure that relates to 2021/22 and identified in 2022/23	-	4 417
Irregular expenditure for the current year	27 006	12 153
Less : Irregular expenditure not recovered and written off	-	-
CLOSING BALANCE	**27 501**	**17 456**

b) Details of current and previous years irregular expenditure (under assessment, determination and investigation)

Description	**2022/23 R'000**	**2021/22 R'000**
Irregular expenditure under assessment	-	885
Irregular expenditure under determination	9 702	4 316
Irregular expenditure under investigation	-	-
CLOSING BALANCE	**9 702**	**5 201**

c) Details of current and previous year disciplinary or criminal steps taken as a result of irregular expenditure

Description	**2022/23 R'000**	**2021/22 R'000**
One criminal case involving three officials for procurement related fraud. The case is in process with Military Police and Director Public Prosecution Provincial	495	885
CLOSING BALANCE	**495**	**885**

TABLE 38: FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless expenditure reconciliation	2022/23 R'000	2021/22 R'000
Opening balance	13 408	-
Add: Confirmed expenditure	353	13 427
Less: Expenditure recoverable	-	-
Less: Expenditure not recovered and written off	(33)	(19)
CLOSING BALANCE	**13 728**	**13 408**

a) Reconciling notes to the annual financial statement disclosure

Description	2022/23 R'000	2021/22 R'000
Fruitless expenditure that was under assessment in 2021/22	47	13 137
Fruitless expenditure that relates to 2021/22 and identified in 2022/23	-	282
Fruitless expenditure for the current year	306	8
Less : Fruitless expenditure not recovered and written off	(33)	(19)
CLOSING BALANCE	**320**	**13 408**

b) Details of current and previous years fruitless expenditure (under assessment, determination and investigation)

Description	2022/23 R'000	2021/22 R'000
Fruitless expenditure under assessment		13 137
Fruitless expenditure under determination	273	
Fruitless expenditure under investigation		269
CLOSING BALANCE	**273**	**13 406**

c) Details of current and previous years fruitless expenditure written off

Description	2022/23 R'000	2021/22 R'000
Fruitless expenditure written off	33	19
CLOSING BALANCE	**33**	**19**

The investigations for the three matters concluded that official involved could not be found negligent nor liable for the losses. The losses were thus written off as irrecoverable.

d) Details of current and previous year disciplinary or criminal steps taken as a result of fruitless expenditure

Description	2022/23 R'000	2021/22 R'000
Disciplinary action taken against three officials for non compliance to procurement regulations and losses suffered by the company. Two of the officials resigned from the company, whilst one official was dismissed.	47	13 137
CLOSING BALANCE	**47**	**13 137**

PART F:

ANNUAL FINANCIAL REPORT

GATEWAY TO DEFENCE SOLUTIONS

ARMSCOR

Armaments Corporation of South Africa SOC Ltd

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

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the Armaments Corporation of South Africa SOC Ltd and its subsidiaries (the group) set out on pages 121 to 196, which comprise the consolidated and separate statement of financial position as at 31 March 2023, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the group as at 31 March 2023, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Companies Act 71 of 2008 (Companies Act).

Basis for opinion

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

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

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

Other matters

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

National Treasury Instruction No. 4 of 2022/23: PFMA Compliance and Reporting Framework

7. On 23 December 2022, the National Treasury issued Instruction No. 4 of 2022-23, which came into effect on 3 January 2023, in terms of section 76(1)(b), (e) and (f), 2(e) and (4)(a) and (c) of the PFMA. The instruction note deals with the PFMA compliance and reporting framework and addresses, amongst others, the disclosure of unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure. Irregular expenditure and fruitless and wasteful expenditure incurred in prior financial years and not yet addressed no longer need to be disclosed in either the annual report or the disclosure notes to the annual financial statements. Only the current year and prior year figures are disclosed in note 41 to the financial statements of the Armaments Corporation of South Africa. Movements in respect of irregular expenditure and fruitless and wasteful expenditure also no longer need to be disclosed in the notes to the annual financial statements. The disclosure of these movements (e.g. condoned, recoverable, removed, written off, under assessment, under determination and under investigation) is now included as part of the other information in the annual report of the Armaments Corporation of South Africa. I do not express an opinion on the disclosure of irregular expenditure and fruitless and wasteful expenditure in the annual report.

Unaudited supplementary schedules

8. The supplementary information set out on pages 119 to 120 as well as on page 197 does not form part of the financial statements and is presented as additional information. I have not audited this information and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting authority for the consolidated and separate financial statements

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

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

Responsibilities of the auditor-general for the audit of the consolidated and separate financial statements

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

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

Report on the audit of the annual performance report

13. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for selected objectives presented in the annual performance report. The accounting authority is responsible for the preparation of the annual performance report.

14. I selected the following objectives presented in the annual performance report for the year ended 31 March 2023 for auditing. I selected objectives that measure the entity's performance on its primary mandated functions and that are of significant national, community or public interest.

Objective	Page numbers	Output
Goal 1: capital defence materiel acquisition, excluding strategic defence acquisition, including technology acquisition	**28**	**To measure the actual commitment of funds against the formally planned value of commitments which is based on capital defence materiel acquisition, excluding strategic defence acquisition, including technology acquisition requirements received and confirmed as valid requirements from the Department of Defence (DOD).**
Goal 2: system support acquisition and procurement	**29**	**To measure the actual commitment of funds against the formally planned value of commitments which is based on system support acquisition and procurement requirements received and confirmed as valid requirements from the DOD.**

15. I evaluated the reported performance information for the selected objectives against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the entity's planning and delivery of its mandate and objectives.

16. I performed procedures to test whether:
    - the indicators used for planning and reporting on performance can be linked directly to the entity's mandate and the achievement of its planned objectives
    - the indicators are well defined and verifiable to ensure that they are easy to understand and apply consistently and that I can confirm the methods and processes to be used for measuring achievements
    - the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when the required level of performance as well as how performance will be evaluated
    - the indicators and targets reported on in the annual performance report are the same as what was committed to in the approved initial or revised planning documents.

17. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion.

18. I did not identify any material findings on the reported performance information of Goal 1: capital defence materiel acquisition, excluding strategic defence acquisition, including technology acquisition and Goal 2: system support acquisition and procurement.

Other matters

19. I draw attention to the matters below.

Achievement of planned targets

20. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- and underachievement.

Material misstatement

21. I identified a material misstatement in the annual performance report submitted for auditing. This material misstatement was in the reported performance information of goal 2: system support acquisition and procurement. Management subsequently corrected the misstatement, and I did not include any material findings in this report.

Report on compliance with legislation

22. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting authority is responsible for the entity's compliance with legislation.

23. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

24. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the entity, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

25. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Expenditure management

26. Effective and appropriate steps were not taken to prevent irregular expenditure as disclosed in note 41 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the repeat irregular expenditure was caused by awarding of quotations that did not indicate the stipulated minimum threshold for local production and content.

Revenue management

27. Effective and appropriate steps were not taken to collect all revenue due, as required by section 51(1)(b)(i) of the PFMA.

Procurement and contract management

28. Bid documentation for procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2).

Other information in the annual report

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

30. My opinion on the consolidated and separate financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

31. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Internal control deficiencies

33. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

34. The matters reported below are limited to the significant internal control deficiencies that resulted in the material adjustment on the annual performance report and the material findings on compliance with legislation included in this report.

35. Senior management did not exercise sufficient oversight responsibility over performance reporting. This was mainly a result of insufficient reviews by management combined with system-imposed limitations linked to the legacy systems used to compile the performance report. This resulted in a material adjustment to the annual performance report. Additionally, monitoring controls over compliance with laws and regulations were not effective in preventing non-compliance with regard to repeat irregular expenditure, procurement, and collection of revenue due to the entity as a result of inadequate measures involved in collecting debt owed to the entity.

Other reports

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

37. The Military Police Unit is investigating allegations of procurement irregularities at the Dockyard division. These investigations were still in progress at the date of this report.

Auditor-General

Pretoria
31 July 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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

Financial statements

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

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated and separate financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the entity 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 consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the consolidated and separate financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause the entity to cease operating as a going concern
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and determine whether the consolidated and separate 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

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.

I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation - selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Section and regulations
Public Finance Management Act 1 of 1999 (PFMA)	Section 50(3); 50(3)(a); 50(3)(b) Section 51(1)(a)(ii); 51(1)(a)(iii); 51(1)(a)(iv);51(1)(b); 51(1)(b)(i); 51(1)(b)(ii); 51 (1)(e)(iii) Section 52(b) Section 53(4) Section 54(2)(c'); 54(2)(d) Section 55(1)(a); 55(1)(b); 55(1)(c)(i) Section 56 Section 57(b); 57(d) Section 66(3)(a)
Treasury Regulations	Regulation 29.1.1; 29.1.1 (a); 29.1.1 (c;); 29.2.1; 29.2.2; 29.3.1 Regulation 31.2.5; 31.2.7(a) Regulation 33.1.1; 33.1.3
Prevention and Combatting of Corrupt Activities Act 12 of 2004	Section 34(1)
Companies Act 71 of 2008	Section 30(3)(b)(i); 33(1)(a) Section 45(2); 45(3)(a)(ii); 45(3)(b)(i); 45(3)(b)(ii); 45(4) Section 46(1)(a); 46(1)(b); 46(1)(c') Section 72(4)(a); Section 75(6) Section 86(1); 86(4); Section 88(2)(d) Section 112(2)(a); Section 129(7)
Companies Regulations	Regulation 30(2); 43(2)(a)
Preferential Procurement (PPPF) Act 5 of 2000	Section 1 (i); 2.1 (a); 2.1 (b); 2.1 (f)
PPR 2017	Paragraph 4.1; 4.2 Paragraph 5.1; 5.3; 5.6; 5.7 Paragraph 6.1; 6.2; 6.3; 6.5; 6.6; 6.8 Paragraph 7.1; 7.2; 7.3; 7.5; 7.6; 7.8 Paragraph 8.2; 8.5 Paragraph 9.1; 9.2 Paragraph 10.1; 10.2 Paragraph 11.1; 11.2 Paragraph 12.1 and 12.2
PPR 2022	Paragraph 3.1 Paragraph 4.1; 4.2; 4.3; 4.4 Paragraph 5.1; 5.2; 5.3; 5.4

AUDIT REPORT

Legislation	Section and regulations
Construction Industry Development Board Act No.38 of 2000	Section 18(1), Section 22(3)
CIDB Regulations	CIDB regulation 17; 18(1A)1; 25(1); 25 (5) & 25(7A)
Armaments Corporation of South Africa Act 51 of 2003	Section 6(1)
NT SCM Instruction Note 03 2021/22	Paragraph 4.1; 4.2; 4.2 (b); 4.3; 4.4; 4.4 (c);4.4(d); 4.6 Paragraph 5.4
NT SCM Instruction 4A of 2016/17	Paragraph 6
NT SCM Instruction Note 03 2019/20	Paragraph 5.5.1 (iv); 5.5.1 (x)
NT SCM Instruction Note 11 2020/21	Paragraph 3.1; 3.4 (a); 3.4(b); 3.9: 6.1 ;6.2;6.7
PFMA SCM instruction 08 of 2022/23	Paragraph 3.2 Paragraph 4.3.2; 4.3.3
Competition Act	Section 4(1)(b)(ii)
NT instruction note 4 of 2015/16	Paragraph 3.4
Second amendment of NTI 05 of 2020/21	Paragraph 4.8; 4.9; 5.1 ; 5.3
Erratum NTI 5 of 202/21	Paragraph 1
Erratum NTI 5 of 202/21	Paragraph 2
NT instruction note 5 of 2020/21	Paragraph 5.1 and 5.3

ANNUAL FINANCIAL REPORT

GROUP: FIVE YEAR REVIEW (UNAUDITED)

STATEMENT OF FINANCIAL POSITION	2023	2022 (Restated)	2021	2020 (Restated)	2019
NET ASSETS					
Property, plant and equipment	1 203 159	1 225 755	1 690 390	1 731 296	1 874 788
Investment property	28 400	25 000	50 730	47 270	48 400
Intangible assets	27 771	28 293	21 677	18 639	17 577
Heritage assets	12 746	12 746	13 829	13 829	13 829
Other non-current assets	6 235	-	-	-	1 540
Other non-current liabilities	(14 954)	(18 764)	(27 204)	(65 161)	(27 197)
Net current assets	692 072	357 702	593 685	768 235	182 300
Financial instruments	1 058 794	1 236 517	883 226	556 973	877 634
Post-retirement employee benefit obligation	(343 810)	(364 817)	(304 173)	(273 189)	(226 164)
NET ASSETS	**2 670 413**	**2 502 432**	**2 922 160**	**2 797 892**	**2 762 707**

STATEMENT OF FINANCIAL PERFORMANCE					
REVENUE					
Sale of goods and services	276 374	268 810	301 812	389 585	381 112
Government grants (including deferred income recognised)	1 269 587	1 256 832	1 113 324	1 175 762	1 134 103
Interest income	126 312	86 188	89 169	104 677	78 642
Rental income	59 089	62 722	71 421	68 045	143 574
Donations received	-	-	-	-	441
Other income	21 602	21 026	15 091	21 996	16 255
	1 752 964	**1 695 578**	**1 590 817**	**1 760 065**	**1 754 127**
TOTAL SURPLUS/(DEFICIT) FOR THE YEAR	**167 981**	**4 604**	**124 267**	**179 545**	**235 311**

ANNUAL FINANCIAL REPORT

VALUE-ADDED STATEMENT - 31 MARCH 2023 (UNAUDITED)	MARCH 2023 R'000	%	MARCH 2022 R'000	%
Revenue	1 752 964		1 695 578	
Sales of goods and services	276 374		268 810	
Government grant (including deferred income recognised)	1 269 587		1 256 832	
Rental income	59 089		62 722	
Other income	18 338		18 450	
Interest received	126 312		86 188	
Dividends received	3 264		2 576	
Less: Paid to suppliers for materials and services	-417 708		-377 981	
TOTAL VALUE ADDED	**1 335 256**	100%	**1 317 597**	100%
DISTRIBUTED AS FOLLOWS:				
To employees as salaries, wages and other benefits	1 059 126	79%	1 200 154	91%
To governments as taxation (see below)	16 120	1%	16 732	1%
TOTAL VALUE ADDED DISTRIBUTED	1 075 246		1 216 886	
Portion of value added reinvested to sustain and expand the business	260 010	19%	100 711	8%
[Surplus/(deficit) plus depreciation]				
TOTAL VALUE ADDED DISTRIBUTED AND REINVESTED	**1 335 256**	100%	**1 317 597**	100%
TAXATION				
Paid in taxes to governments	16 120		16 732	
Income tax (received)/paid	1 058		2 703	
Rates and taxes to local authorities (note 1)	15 062		14 029	
Collected on behalf of, and paid over to government	373 697		377 835	
■ Employees taxation deducted from remuneration paid	248 542		257 238	
■ Unemployment Insurance Fund	2 925		2 879	
■ Net value added taxation (VAT)	122 230		117 718	

Note1		
UIF	2 924 995	2 878 828
Municipal rates	12 136 578	11 150 298
	15 061 573	14 029 126

Statement of Financial Position as at 31 March 2023

Financial Statements for the year ended 31 March 2023

	Note(s)	2023 '000	2022 Restated* '000
Assets			
Current Assets			
Inventories	3	15,812	14,160
Current tax receivable	4	95	-
Receivables from exchange transactions	5	423,430	204,496
Receivables from non-exchange transactions	6	69,495	542
VAT receivable		21,155	3,430
Cash and cash equivalents	7	666,901	465,663
		1,196,888	**688,291**
Non-Current Assets			
Investment property	8	28,400	25,000
Property, plant and equipment	11	1,203,159	1,225,755
Intangible assets	12	27,771	28,293
Heritage assets	13	12,746	12,746
Investments in joint ventures	14	6,235	-
Financial Instruments	15	1,058,794	1,236,517
		2,337,105	**2,528,311**
Total Assets		**3,533,993**	**3,216,602**
Liabilities			
Current Liabilities			
Current tax payable	4	-	9
Payables from exchange transactions	16	181,613	143,718
Payable from non-exchange transactions	17	184,281	48,720
Employee benefit obligation	20	26,867	27,004
Deferred income	18	31,078	47,894
Provisions	19	107,844	90,248
		531,683	**357,593**
Non-Current Liabilities			
Employee benefit obligation	20	316,943	337,813
Deferred income	18	8,862	11,716
Deferred tax	21	6,092	7,048
		331,897	**356,577**
Total Liabilities		**863,580**	**714,170**
Net Assets		**2,670,413**	**2,502,432**
Share capital / contributed capital	22	75,000	75,000
Reserves			
Revaluation reserve	23	1,223,788	1,241,540
Other non-distributable reserves	24	395,268	400,025
Accumulated surplus		976,357	785,867
Total Net Assets		**2,670,413**	**2,502,432**

Statement of Financial Performance

Financial Statements for the year ended 31 March 2023

	Note(s)	2023 '000	2022 Restated* '000
Revenue			
Revenue from exchange transactions			
Sale of goods		23,914	53,704
Rendering of services		252,460	215,106
Deferred income recognised		19,056	19,492
Rental income		59,089	62,722
Other income		18,338	18,450
Interest received	26	126,312	86,188
Dividends received	26	3,264	2,576
Total revenue from exchange transactions		**502,433**	**458,238**
Revenue from non-exchange transactions			
Transfer revenue			
Government grant	27	1,250,531	1,237,340
Total revenue	25	**1,752,964**	**1,695,578**
Expenditure			
Employee related costs	28	(1,059,126)	(1,200,154)
Depreciation and amortisation		(92,029)	(96,107)
Finance costs		-	(34)
Lease rentals on operating leases	29	(3,209)	(2,204)
Debt Impairment losses	30	(43,960)	(7,674)
Cost of sales	31	(110,414)	(118,758)
General expenses	32	(247,943)	(241,413)
Total expenditure		**(1,556,681)**	**(1,666,344)**
Operating surplus		**196,283**	**29,234**
(Loss)/gain on disposal of assets and liabilities		(36,980)	6,605
Profit on foreign exchange transactions		266	18,389
Fair value adjustments	33	2,736	(46,877)
Impairment loss		(4)	-
Share of surpluses from joint venture		6,235	-
Inventories losses/write-downs		(721)	(277)
		(28,468)	**(22,160)**
Surplus before taxation		**167,815**	**7,074**
Taxation	35	(166)	2,470
Surplus for the year		**167,981**	**4,604**

Statement of Changes in Net Assets

Financial Statements for the year ended 31 March 2023

	Share capital / contributed capital '000	Revaluation reserve '000	Other NDR '000	Total reserves '000	Accumulated surplus / deficit '000	Total net assets '000
Opening balance as previously reported	75,000	1,674,637	439,535	2,114,172	732,988	2,922,160
Adjustments						
Correction of errors	-	-	-	-	(19,114)	(19,114)
Balance at 01 April 2021 as restated*	**75,000**	**1,674,637**	**439,535**	**2,114,172**	**713,874**	**2,903,046**
Changes in net assets						
Revaluation loss	-	(405,218)	-	(405,218)	-	(405,218)
Net income (losses) recognised directly in net assets	-	(405,218)	-	(405,218)	-	(405,218)
Surplus for the year	-	-	-	-	4,604	4,604
Total recognised income and expenses for the year	-	(405,218)	-	(405,218)	4,604	(400,614)
Transfer from/(to) surplus/deficit	-	(27,879)	(39,510)	(67,389)	67,389	-
Total changes	-	(433,097)	(39,510)	(472,607)	71,993	(400,614)
Balance at 01 April 2022 as restated*	**75,000**	**1,241,540**	**400,025**	**1,641,565**	**785,867**	**2,502,432**
Changes in net assets						
Surplus for the year	-	-	-	-	167,981	167,981
Transfer from/(to) surplus/deficit	-	(17,752)	(4,757)	(22,509)	22,509	-
Total changes	-	(17,752)	(4,757)	(22,509)	190,490	167,981
Balance at 31 March 2023	**75,000**	**1,223,788**	**395,268**	**1,619,056**	**976,357**	**2,670,413**
Note(s)	22	23	24			

Cash Flow Statement

Financial Statements for the year ended 31 March 2023

	Note(s)	2023 '000	2022 Restated* '000
Cash flows from operating activities			
Receipts			
Sale of goods and services		19,528	223,504
Grants received		1,250,531	1,237,340
Interest income		109,786	78,246
Other receipts		18,338	18,450
		1,398,183	1,557,540
Payments			
Employee costs		(1,104,092)	(1,204,267)
Suppliers		(166,355)	(290,081)
Finance costs		-	(34)
Taxes on surpluses		(894)	(2,703)
		(1,271,341)	(1,497,085)
Net cash flows from operating activities	36	**126,842**	**60,455**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(103,354)	(58,348)
Proceeds from sale of property, plant and equipment	11	682	138
Purchase of other intangible assets	12	(5,952)	(9,545)
Proceeds from sale of financial assets		179,756	(342,269)
Dividends or similar distributions received		3,264	2,576
Net cash flows from investing activities		**74,396**	**(407,448)**
Cash flows from financing activities			
Net cash flows from financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		**201,238**	**(346,993)**
Cash and cash equivalents at the beginning of the year		465,663	812,656
Cash and cash equivalents at the end of the year	7	**666,901**	**465,663**

* See Note 46

Statement of Comparison of Budget and Actual Amounts

Financial Statements for the year ended 31 March 2023

Budget on Accrual Basis

	Approved budget '000	Adjustments '000	Final Budget '000	Actual amounts on comparable basis '000	Difference between final budget and actual '000	Difference between final budget and actual %	Note
Statement of Financial Performance							
Revenue							
Revenue from exchange transactions							
Sale of goods	15,058	-	**15,058**	23,914	**8,856**	**59 %**	1.1
Rendering of services	198,823	-	**198,823**	252,460	**53,637**	**27 %**	1.2
Deferred income	11,656	-	**11,656**	19,056	**7,400**	**63 %**	1.3
Rental income	63,059	-	**63,059**	59,089	**(3,970)**	**(6)%**	
Other income	28,191	-	**28,191**	18,338	**(9,853)**	**(35)%**	1.4
Interest received	57,336	-	**57,336**	126,312	**68,976**	**120 %**	1.5
Dividends or similar distributions received	-	-	**-**	3,264	**3,264**	**100 %**	1.6
Total revenue from exchange transactions	**374,123**	**-**	**374,123**	**502,433**	**128,310**	**34 %**	
Revenue from non-exchange transactions							
Transfer revenue							
Government grants & subsidies	1,241,644	-	**1,241,644**	1,250,531	**8,887**	**1 %**	
Total revenue	**1,615,767**	**-**	**1,615,767**	**1,752,964**	**137,197**	**8 %**	
Expenditure							
Personnel	(1,059,705)	-	**(1,059,705)**	(1,059,126)	**579**	**- %**	
Depreciation and amortisation	(111,306)	-	**(111,306)**	(92,029)	**19,277**	**(17)%**	2.1
Impairment loss/ Reversal of impairments	-	-	**-**	(4)	**(4)**	**100 %**	3.1
Lease rentals on operating leases	(4,016)	-	**(4,016)**	(3,209)	**807**	**(20)%**	2.2
Debt impairment	(36)	-	**(36)**	(43,960)	**(43,924)**	**122,011 %**	2.3
Cost of sales	(90,881)	-	**(90,881)**	(110,414)	**(19,533)**	**21 %**	2.4
General expenses	(367,428)	-	**(367,428)**	(247,943)	**119,485**	**(33)%**	2.5
Total expenditure	**(1,633,372)**	-	**(1,633,372)**	**(1,556,685)**	**76,687**	**(5)%**	

Statement of Comparison of Budget and Actual Amounts

Financial Statements for the year ended 31 March 2023

Budget on Accrual Basis

	Approved budget '000	Adjustments '000	Final Budget '000	Actual amounts on comparable basis '000	Difference between final budget and actual '000	Difference between final budget and actual %	Note
Operating surplus	**(17,605)**	**-**	**(17,605)**	**196,279**	**213,884**	**(1,215)%**	
Loss on disposal of assets and liabilities	303	-	**303**	(36,980)	**(37,283)**	**(12,305)%**	3.2
Gain on foreign exchange transactions	1,235	-	**1,235**	266	**(969)**	**(78)%**	3.3
Fair value adjustments	-	-	**-**	2,736	**2,736**	**100 %**	3.1
Share of surpluses or deficits from associates or joint ventures accounted for using the equity method	-	-	**-**	6,235	**6,235**	**100 %**	3.1
Inventories losses/write-downs	-	-	-	(721)	**(721)**	**100 %**	3.1
	1,538	**-**	**1,538**	**(28,464)**	**(30,002)**	**(1,951)%**	
Surplus before taxation	**(16,067)**	**-**	**(16,067)**	**167,815**	**183,882**	**(1,144)%**	
Taxation	-	-	**-**	(166)	**(166)**	**100 %**	4.1
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(16,067)**	**-**	**(16,067)**	**167,981**	**184,048**	**(1,146)%**	

Statement of Comparison of Budget and Actual Amounts

Financial Statements for the year ended 31 March 2023

The budget represented above is the approved final budget that has been prepared on the accrual basis.

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

Variances above 10% are explained below:

1. Total revenue

The reasons for the variances are as follows:

1.1 Sales are higher than budget mainly from the logistics and travel business which are based on client requirements.
1.2 Funding received for technology projects was not in the budget, resulting in higher revenue generated from services rendered.
1.3 Higher than estimated conditional funding received in prior years was utilised towards the capitalisation of the submarine repair group, assets and maintenance expenditure.
1.4 The budget included high risk income for government to government transitions which could not be achieved.
1.5 The interest rate hike cycle has positively impacted the interest income received from invested funds. Higher income was realised than planned for in the budget. Also included in the actual figure is an adjustment for the discounting for the receivables that impact the interest income in terms of standards of GRAP
1.6 Dividend received relate to the Armscor Medical Benefit Fund, which is not included in the operational budget of Armscor.

2. Total operating expenditure

The reasons for the variances are as follows:

2.1 Depreciation was less than budget as some of the planned acquisition of assets were either delayed or took place later in the year.
2.2 Intracompany lease rental transactions are eliminated for statutory reporting purposes.
2.3 The company aims to collect all debts due to the entity and thus minimal debt provision is allowed for in the budget. The variance indicates higher provision raised for debts considered doubtful, most of which are related to related party debtors.
2.4 Higher cost of sales were incurred to render services emanating from additional funding for the technology projects which was not included in the budget.
2.5 Measures to contain operational costs to mitigate against revenue pressures continue to be implemented. Cost savings were released for travel costs.

3. Other comprehensive surplus/deficit

3.1 These items can not be predetermined and therefore were not budgeted for.
3.2 The actual figures reflect the net effect of disposals as part of the head office improvement project. The disposal impact was not included in the budget.
3.3 Impact of the weakening of the currency on foreign related transaction resulting in higher exchange rate losses than was budgeted for.

4. Taxation

4.1 The Armscor Medical Benefit Fund is taxed at 45% (2022: 45%) for the year and is not included in the operational budget. Armscor is exempted from income tax in terms of Section 10(1)(t)(v) of the Income Tax Act no.58, as amended.

Accounting Policies

1. Presentation of Financial Statements

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

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, except for some financial instruments and land and buildings which are measured at fair value and incorporate the principal accounting policies set out below. They are presented in South African Rands and all values are rounded to the nearest thousand unless otherwise indicated.

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

Mandate

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

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

These Acts furthermore provide that Armscor must adhere to accepted corporate governance principles, best business practices and Standards of Generally Recognised Accounting Practices within a framework of established norms and standards that reflect fairness, equity, transparency, economy, efficiency, accountability and lawfulness.

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

1.1 Financial policy

Activities are financed as follows:

a) Armscor's operating funds

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

b) Operating capital and fixed capital of the Group

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

c) Procurement of armaments

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

1.2 Accounting policy

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

1.3 Going concern assumption

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

1.4 Consolidation

Basis of consolidation

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

The consolidated annual financial statements incorporate the annual financial statements of the controlling entity and all controlled entities, including special purpose entities, which are controlled by the controlling entity.
Consolidated annual financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.
Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

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

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

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

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

Jointly controlled entities

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

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

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

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

1.5 Significant judgements and sources of estimation uncertainty

In preparing the 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) Trade receivables / Held to maturity investments and/or loans and receivables

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

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

1.5 Significant judgements and sources of estimation uncertainty (continued)

b) Fair value estimation

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

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

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

c) Impairment testing

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

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

d) Provisions

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

e) Employee benefits

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

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

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

f) Effective interest rate

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

1.6 Investment property

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

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

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

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

An investment property shall be derecognised on disposal (including disposal through a non-exchange transaction) or when the investment

1.6 Investment property (Continued)

property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Fair value

Subsequent to initial measurement investment property is measured at fair value. The fair value of investment property reflects market conditions at the reporting date.

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

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

1.7 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

a) Land and buildings

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

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

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

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

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

1.7 Property, plant and equipment (Continued)

b) Plant and equipment

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

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

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

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

Item	Depreciation method	Average useful life
Buildings	Straight line	3 - 70 years
Plant and machinery	Straight line	2 - 32 years
Furniture, fixtures and computers	Straight line	2 - 25 years
Motor vehicles and vessels	Straight line	5 - 15 years

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

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

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

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

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

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

1.8 Intangible assets

An intangible asset is recognised when:

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

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

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

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

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

1.8 Intangible assets (Continued)

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Patents, trademarks and other rights	Straight line	5 - 15 years
Computer software	Straight line	2 - 8 years

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

The entity's intangible assets all have finite lives.

1.9 Heritage assets

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

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

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

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

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

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

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

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

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

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

1.10 Investments in joint ventures

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

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

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

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

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

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

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

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

- If the investment becomes a subsidiary, the entity shall account for its investment in accordance with GRAP 6.
- If the retained interest in the former joint venture is a financial asset, the entity measures the retained interest at fair value. The entity recognises in surplus or deficit any difference between:
  - the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture;
  - the carrying amount of the investment at the date the equity method was discontinued.
- When the entity discontinues the use of the equity method, the entity accounts for all amounts previously recognised in surplus or deficit in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

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

1.11 Insurance and risk management

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

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

1.12 Financial instruments

Recognition

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

1.12 Financial instruments (Continued)

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

Derecognition of financial assets and financial liabilities

A financial asset (or, where applicable a part of a financial asset or part of a entity of similar financial assets) is derecognised where the rights to receive cash flows from the asset have expired. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Financial assets

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

1.12.1 Loans and receivables

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

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

a) Trade and other receivables

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

b) Cash and cash equivalents

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

c) Other loans

Other loans comprise of employee loans. These loans are interest bearing over periods that vary between one and six months.

1.12.2 Investments

Investments in financial instruments are classified and measured as follows:

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

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

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

1.12 Financial instruments (Continued)

Offset

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

Financial liabilities

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

Financial guarantee contracts

Financial guarantee contracts issued by the entity are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when it becomes due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially at fair value.

Financial guarantees are derecognised when the obligation is extinguished, expire or transferred. The entity currently does not recognise any financial guarantee contracts as, in the opinion of the directors; the possibility of loss arising from these guarantees is remote.

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

a) Trade and other receivables

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

1.13 Statutory receivables

Identification

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

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

Recognition

The entity recognises statutory receivables as follows:

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

Initial measurement

The entity initially measures statutory receivables at their transaction amount.

Subsequent measurement

The entity measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Derecognition

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

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

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

1.14 Tax

Current tax assets and liabilities

Current taxation comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the reporting date, and any adjustment of tax payable for the previous year.

1.14 Tax (Continued)

Deferred tax assets and liabilities

Deferred taxation is provided using the financial position liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date. Deferred tax is recognised in the surplus or deficit except to the extent that it relates to a transaction that is recorded directly in net assets, or a business combination that is an acquisition. The effect on deferred tax of any changes in tax rates is recognised in the surplus or deficit, except to the extent that it relates to items previously charged or credited directly to net assets.

1.15 Leases

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.16 Inventories

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

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

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

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

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

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

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

1.16 Inventories (Continued)

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

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

1.17 Foreign currency conversion

Transactions and balances

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

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

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

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

1.18 Impairment of assets

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

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

Identification

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

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

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

Value in use

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

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

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

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

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

1.18 Impairment of assets (Continued)

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

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

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

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

1.19 Non-distributable reserves

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

a) Capital and building maintenance reserve

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

b) Computer upgrading reserve

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

c) Marketing promotion reserve

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

d) Internal insurance reserve

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

e) Revaluation reserve

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

f) Post-retirement medical reserve

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

1.20 Share capital / contributed capital

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

1.21 Employee benefits

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

a) Short-term employee benefits

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

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;

1.21 Employee benefits (Continued)

- the expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cell phones) for current employees.

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

b) Post-employment benefits: Defined contribution plans

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

The entity contributes towards and operates the Armscor Defined Contribution Pension Fund and the Armscor Provident Fund, which offer benefits based on the contributions of and on behalf of every member, as well as on investment yields.

c) Post-employment benefits - Defined benefit plan

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

The entitlement to post-retirement health care benefits is based on the qualifying employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The cost of providing benefits under the defined benefits plan is determined using the projected unit credit actuarial valuation method.

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

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

d) Other long-term employee benefits

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

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

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

1.22 Provisions and contingencies

Provisions are recognised when:

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

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

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

1.22 Provisions and contingencies (Continued)

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 Scorecard method for evaluating individual performance. Performance remuneration is based proportionally on the individual performance as measured and expressed by the individual's performance score and also on Group department's performance as measured and expressed by their calculated performance score.

b) Provision for leave

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

c) Contingencies

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

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

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

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

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

1.23 Commitments

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

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

1.24 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

Sale of goods

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

- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

1.24 Revenue from exchange transactions (continued)

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

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

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

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

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

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- The amount of the revenue can be measured reliably.

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

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

1.25 Revenue from non-exchange transactions

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

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

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

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

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

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

1.26 Cost of sales

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

Contract costs comprise:

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

1.27 Investment income

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

1.28 Accounting by principals and agents

Identification

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

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

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the entity in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the entity concludes that it is not the agent, then it is the principal in the transactions.

The entity is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the entity has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that is an agent. The entity applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the entity is an agent.

Recognition

The entity, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal- agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The entity, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The entity recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.29 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.30 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred.

The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.31 Irregular expenditure

Irregular expenditure is recorded in the notes to the financial statements when confirmed. The amount recorded is equal to the value of the irregular expenditure incurred, unless it is impractical to determine, in which case reasons therefore must be provided in the notes.

Irregular expenditure receivables are measured at the amount that is expected to be recovered and are de-recognised when settled or written-off as irrecoverable.

1.32 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Armscor's activities are reported in the following segments: Corporate, Dockyard and Research & Development (R&D).

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment.

1.33 Budget information

The approved budget covers the fiscal period from 1 April to 31 March, and is prepared on zero-based budgeting basis.

The budget for the economic entity includes all the entities approved budgets under its control, except for the Armscor Medical Benefit Fund.

The financial statements and the budget are on the same basis of accounting and are classified and presented based on the nature of the expenses, therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts. Material deviations are explained in the relevant notes to the annual financial statements.

1.34 Related parties

A related party is an individual as well as their close family members, and /or entities are related party if one part has the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Management is regarded as a related party and comprise of the Board of Directors and Executive Committee Members.

1.35 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.36 Living and non-living resources

Living resources are those resources that undergo biological transformation.

Non-living resources are those resources, other than living resources, that occur naturally and have not been extracted.

Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for:
(a) sale;
(b) distribution at no charge or for a nominal charge; or
(c) conversion into agriculture produce or into additional biological assets for sale or distribution at no charge or for a nominal charge.

A bearer plant is a living plant that:
(a) is used in the production or supply of agricultural produce;
(b) is expected to bear produce for more than one period; and
(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a living resource.

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or development and, where applicable, the amount attributed to the asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Group of resources means a grouping of living or non-living resources of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

Useful life is the period over which an asset is expected to be available for use by an entity, or the number of production or similar units expected to be obtained from the asset by an entity.

1.36 Living and non-living resources (Continued)

Recognition

Non-living resources, other than land, are not recognised as assets. Required information are disclosed in the notes to the financial statements.

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

Where the entity is required in terms of legislation or similar means to manage a living resource, but it does not meet the definition of an asset because control of the resource cannot be demonstrated, relevant information are disclosed in the notes to the financial statements.

Where the entity holds a living resource that meets the definition of an asset, but which does not meet the recognition criteria, relevant information are disclosed in the notes to the financial statements. When the information about the cost or fair value of the living resource becomes available, the entity recognise, from that date, the living resource and apply the measurement principles.

1.37 Change in accounting policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Armscor shall change an accounting policy only if the change:

- is required by a standard of GRAP; or
- results in the financial statements providing reliable and more relevant information about the effects of the transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

Refer to note 46 for changes in accounting policies.

	2023 '000	2022 '000

2. Reporting Framework

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations and directives issued by the International Accounting Standards Board (IASB).

In terms of these standards (GRAP), in the absence of a standard or pronouncement comprising the GRAP financial reporting frameworks that specifically applies to a transaction, other event or condition, management should apply judgement and may consider the following pronouncements, in descending order, in developing an accounting policy for such a transaction, event or condition.

- Standards of GRAP (Generally Recognised Accounting Practices) that have been issued, but are not yet effective;
- IPSAS (International Public Sector Accounting Standards); and
- IFRS (International Financial Reporting Standards).

3. Inventories

	2023 '000	2022 '000
Raw materials, components	3,657	1,709
Work in progress	2,601	3,913
Finished goods	1,212	1,135
Consumables	6,323	7,403
Consumable stores	2,019	-
	15,812	**14,160**

The amount of inventories written off during the year is R721 thousand (2022: R604 thousand), whilst inventories utilised and expensed to general expenses during the year is R28 797 thousand (2022: R3 176 thousand).

4. Current tax payable

2023	Outstanding at beginning of year	Normal income tax for current year	Income tax paid during the year	Prior year adjustment	Penalties and interest levied by SARS	Income tax receivable at the end of the year
Current tax payable/(receivable)	9	789	(1,058)	158	7	(95)

2022	Outstanding at beginning of year	Normal income tax for current year	Income tax paid during the year	Penalties and interest levied by SARS	Income tax payable at the end of the year
Current tax payable/(receivable)	(63)	2,775	(2,702)	(1)	9

5. Receivables from exchange transactions

	2023 '000	2022 '000
Trade debtors	335,129	144,208
Prepayments	7,384	2,096
Deposits	1,653	1,463
Interest receivable	59,409	42,883
Other debtors	17,968	12,971
Other related party debtors	1,887	875
	423,430	**204,496**

	2023 '000	2022 '000

5. Receivables from exchange transactions (continued)

Trade receivables past due but not impaired

Management has made an assessment and they concluded that there are no other indications of impairment.

The ageing of amounts past due but not impaired is as follows:

Current	127,727	75,462
31 - 60 days	30,907	28,863
61 - 90 days	12,267	10,745
91 - 120 days	31,414	18,810
121 days and older	132,814	10,328
	335,129	**144,208**

Trade and other receivables impaired

During the year ended, 31 March 2023 trade and other receivables of R57 681 thousand (2022: R51 213 thousand) were impaired and provided for.

Reconciliation of provision for impairment of trade and other receivables

Opening balance	127,565	121,851
Provision for impairment	57,681	51,213
Amounts recovered during the year	(9,048)	(8,314)
Impairment losses reversed	-	(35,461)
Amounts written off as uncollectable	(11)	(1,724)
	176,187	**127,565**

An amount of R Nil (2022: R35 461 thousand) was reversed during the year.

6. Receivables from non-exchange transactions

Other receivables from non-exchange transactions	69,495	542

	2023 '000	2022 '000

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	121	179
Bank balances	122,255	51,685
Short-term deposits	544,525	413,799
	666,901	**465,663**

Included in cash and short-term deposits is an amount of R8 382 thousand (2022: R11 463 thousand) in respect of cash allocated to the insurance reserve and R51 709 thousand (2022: R49 777 thousand - Restated) in respect of Dockyard's post retirement medical benefits as per note 20.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

Cash reserves are earmarked for upgrading of systems, capital expenditure approved but not yet contracted and other maintenance requirements.

The cash held in respect of the Dockyard's medical benefit liability in the prior year was restated to reflect only cash balances.

Figures in Rand thousand

8. Investment property

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	28,400	-	28,400	25,000	-	25,000

Reconciliation of investment property - 2023

	Opening balance	Fair value adjustments	Total
Investment property	25,000	3,400	28,400

Reconciliation of investment property - 2022

	Opening balance	Fair value adjustments	Total
Investment property	50,730	(25,730)	25,000

The fair value was determined by an independent sworn appraiser using current market values on 31 March 2023. The appraiser holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The land was fair valued using the Comparative Sales Method (Market Approach).

Expenditure incurred relating to land amounted to R Nil (2022: R Nil). No revenue is generated from the investment property, however Armscor is actively looking at ways to sweat the property.

Investment property is revalued independently on an annual basis. The following assumptions were applied by the valuator:

- The property is developable.

	2023 '000	2022 '000

8. Investment property (continued)

- No onerous conditions exist on the title deeds,
- No special assumptions were made.

9. Non-living resources

Entity as custodian

The nature of the entity's custodial responsibility, including the legislation or similar means that establishes the custodial responsibility over the resources, are as follows: Armscor has a number of boreholes systems situated in some of the properties it owns.

Nature and types of non-living resources for which the entity is responsible

Borehole water: Boreholes existing at various divisions, including R&D and Armscor Corporate, properties. These boreholes are mainly used for purposes of irrigation in around the properties.

Liabilities and/or contingent liabilities that arise from the non-living resources

Boreholes water: There is no liability arising from this non-living resource.

10. Living resources

Living resources not recognised

The entity did not recognise the following living resources, due to the definition and/or recognition criteria not being met:

Wild game animals

The nature and type are as follows: In one of the Armscor's property situated in the Alkantpan Test Range, a number of game (wild animals) are found in around the property. The game naturally existed in the greater area where the property is situated and they were never specifically acquired or obtained by other non-exchanged transaction means by Armscor.

In and around the property, the game can move freely to adjacent land/farms and is not fenced off by means of proper game fencing which will restrict movement of the game. The game in the property cannot be tagged, and have unrestricted access to the property and adjacent land/farms.

Armscor does not intervene in the physical condition of the game, or restrict the movement of the game and also does not have the ability to direct the use of the game in around the property area. Therefore, the entity does not control the game.

Game worth R2 365 thousand (2022: R Nil) was culled during the year.

Figures in Rand thousand

11. Property, plant and equipment

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	264,101	-	264,101	264,101	-	264,101
Buildings	843,043	(37,574)	805,469	848,278	(4,211)	844,067
Plant and machinery	224,442	(169,139)	55,303	210,416	(151,385)	59,031
Office equipment, furniture and computers	220,514	(166,641)	53,873	222,288	(183,016)	39,272
Vehicles and vessels	99,816	(79,760)	20,056	93,826	(74,655)	19,171
Capital assets under development	4,357	-	4,357	113	-	113
Total	**1,656,273**	**(453,114)**	**1,203,159**	**1,639,022**	**(413,267)**	**1,225,755**

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	264,101	-	-	-	-	264,101
Buildings	844,070	44,812	(37,242)	(46,171)	-	805,469
Plant and machinery	59,026	14,309	(3)	(18,028)	(1)	55,303
Office equipment, furniture and computers	39,274	32,951	(3,011)	(15,341)	-	53,873
Vehicles and vessels	19,171	7,038	(41)	(6,109)	(3)	20,056
Capital assets under development	113	4,244	-	-	-	4,357
	1,225,755	**103,354**	**(40,297)**	**(85,649)**	**(4)**	**1,203,159**

	2023 '000	2022 '000

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Revaluations	Depreciation	Total
Land	626,885	-	-	(362,784)	-	264,101
Buildings	952,003	11,955	(2,145)	(64,552)	(53,194)	844,067
Plant and machinery	58,529	17,562	(96)	-	(16,964)	59,031
Office equipment, furniture and computers	31,787	23,110	(185)	-	(15,440)	39,272
Vehicles and vessels	21,158	5,636	(42)	-	(7,581)	19,171
Capital assets under development	28	85	-	-	-	113
	1,690,390	**58,348**	**(2,468)**	**(427,336)**	**(93,179)**	**1,225,755**

a) Depreciation rates

Buildings	Straight-line	3 - 70 years
Plant and machinery	Straight-line	2 - 32 years
Office equipment, furniture and computers	Straight-line	2 - 25 years
Vehicles and vessels	Straight-line	5 - 15 years

Revaluations

The effective date of the revaluations was 31 March 2022. Revaluations were performed by independent valuer, who holds a recognised and relevant professional qualification and has recent experience in the location and category of the land and buildings being valued and who is not connected to the entity.

Land and buildings are re-valued independently every three years.

The valuations were performed using the Income Capitalisation Approach, Market Approach, Discounted Cash Flow and the Accrued Depreciated Replacement Cost Method.

Contractual commitments

Contractual commitments for acquisition of property, plant and equipments amounts to R67 095 thousand (2022: R64 726 thousand).

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

	2023	2022
Contracted services	11,573	6,829
General expenses	2,660	5,281
	14,233	**12,110**

	2023 '000	2022 '000

11. Property, plant and equipment (continued)

Other matters

Included in the Group's value of plant, machinery and equipment are assets at contractors with a cost of R2 850 thousand (2022: R2 955 thousand) that are fully depreciated. These assets are no longer in use and are kept for strategic purposes.

Land and buildings were fair valued for the first time on 31 March 2013. Had these assets not been fair valued their carrying values would have been as follows:

Land	:	R10 935 thousand (2022: R10 935 thousand)
Buildings	:	R96 954 thousand (2022: R92 774 thousand)

Included in buildings are:

IMT building erected on leasehold premises with a net book value of R71 300 thousand (2022: R70 400 thousand). The leasehold premises comprises a portion in extent 1,4475 ha of Erf 3779 in Simon's Town which is leased from the Department of Public Works and Infrastructure.

The Paardefontein building erected on land owned by the State with a net book value of R2 300 thousand (2022: R2 400 thousand). The premises comprise of a portion in extent 51,3902 ha of portion 6 and 7 of the farm Paardefontein 282, registration division JR, City of Tshwane Metropolitan Municipality, which is registered in the name of the State.

Alkantpan water pipeline runs from Prieska to Copperton, which is approximately 70 kilometers. The pipeline, runs through farms of which the division has servitude on. The pipeline is owned and controlled by Alkantpan and its value is included in the valuation of Alkantpan property. It provides water to Alkantpan Test Range, Mine, Farms and Copperton Town.

Change in estimates:

The group reassesses the useful lives and residual values of items of property, plant and equipment at the end of each reporting period, in line with the accounting policy and GRAP 17 Property, plant and equipment. These assessments are based on historic analysis, benchmarking, and the latest available and reliable information.

Based on the latest available and reliable information there was a change in the estimated useful life of some assets, which resulted in a decrease in depreciation of R5 696 thousand (2022: R4 693 thousand decrease).

The group is unable to estimate the impact of the change in estimate for future periods due to impracticality as a result of the financial system limitations.

Figures in Rand thousand

12. Intangible assets

	2023			2022		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Patents, trademarks and other rights	17,776	(5,619)	12,157	17,570	(1,476)	16,094
Computer software	14,975	(11,276)	3,699	15,717	(11,020)	4,697
Intangible assets under development	11,915	-	11,915	7,502	-	7,502
Total	**44,666**	**(16,895)**	**27,771**	**40,789**	**(12,496)**	**28,293**

Reconciliation of intangible assets - 2023

	Opening balance	Additions	Internally generated	Disposals	Amortisation	Total
Patents, trademarks and other rights	16,094	-	207	-	(4,144)	12,157
Computer software	4,697	1,332	-	(95)	(2,235)	3,699
Intangible assets under development	7,502	3,889	524	-	-	11,915
	28,293	**5,221**	**731**	**(95)**	**(6,379)**	**27,771**

Reconciliation of intangible assets - 2022

	Opening balance	Additions	Internally generated	Transfers	Amortisation	Total
Patents, trademarks and other rights	-	-	-	17,570	(1,476)	16,094
Computer software	3,268	2,828	-	54	(1,453)	4,697
Intangible assets under development	18,409	-	6,717	(17,624)	-	7,502
	21,677	**2,828**	**6,717**	**-**	**(2,929)**	**28,293**

	2023 '000	2022 '000

12. Intangible assets (continued)

Intangible assets in the process of being constructed or developed:

Cumulative expenditure recognised in the carrying value of Intangible assets

	2023	2022
Patents, trademarks and other rights	207	-
Ultrasonic Broken Railway Detection development	524	6,717
Computer software	5,221	2,828
	5,952	**9,545**

Transfers

Transfers made in 2022 relate to assets which were under development and are now recognised as intangible assets.

Amortisation rates

Patents, trademarks and other rights	Straight line 5 - 15 years
Computer software	Straight line 2 - 8 years

Contractual commitments

Contractual commitments for acquisition of intangible assets amounts to R10 470 thousand (2022: R8 181 thousand).

13. Heritage assets

	2023			2022		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	12,746	-	12,746	12,746	-	12,746

Reconciliation of heritage assets 2023

	Opening balance	Total
Historical buildings	12,746	12,746

Reconciliation of heritage assets 2022

	Opening balance	Revaluations	Total
Historical buildings	13,829	(1,083)	12,746

Fair value of heritage assets (measured at cost less accumulated impairment losses)

Heritage assets were fair valued for the first time on 31 March 2013. Had these assets not been fair valued their carrying values would have been as follows:

Land	: R1 727 thousand (2022: R1 727 thousand)
Buildings	: R35 778 thousand (2022: R39 204 thousand)

2023 '000
2022 '000

14. Interests in other entities

Investments in controlled entities

Name	Jurisdiction	Determination of ownership interest	% ownership interest 2023	% ownership interest 2022	Carrying amount 2023	Carrying amount 2022
Armscor Defence Institutes SOC Ltd	South Africa	Subsidiary	100.00 %	100.00 %	-	-
Oospark SOC Ltd	South Africa	Subsidiary	100.00 %	100.00 %	-	-
Sportrand SOC Ltd	South Africa	Subsidiary	100.00 %	100.00 %	-	-
Erasmus Eiendomme SOC Ltd	South Africa	Subsidiary	100.00 %	100.00 %	-	-
					-	-

The carrying amounts of controlled entities are shown net of impairment losses.

All these entities are fully owned by Armscor for strategic business purposes but are dormant since 1 April 2013 and have not traded during the period.

Armscor has the power to govern the financial and operating policies of all these entities so as to obtain benefits from their activities.

Investments in joint ventures

Name	Jurisdiction	Determination of ownership interest	% ownership interest 2023	% own-ership interest 2022	Carrying amount 2023	Carrying amount 2022
African Aerospace and Defence	South Africa	Joint Venture	33.33 %	33.33 %	6,235	-
					6,235	-

The carrying amounts of joint ventures are shown net of impairment losses.

As Armscor owns 33.33% joint control in the Joint Venture, Armscor has significant influence in the Joint Venture.

	2023 '000	2022 '000

14. Interests in other entities (continued)

Interests in joint arrangements and associates

Material joint arrangements

Africa Aerospace and Defence

Name of the joint arrangement or associate:	Africa Aerospace and Defence (AAD)
Nature of the entity's relationship with the joint arrangement or associate:	Armscor entered into a joint control partnership/ arrangement on 30 August 1999 with the South African Aerospace Maritime and Defence Industries (AMD) and the Commercial Aviation Association of Southern Africa (CAASA) whereby each party holds an equal interest of 33.33% in the partnership. The partnership's main business is the hosting of the Africa Aero space and Defence exhibition which takes place bi-annually.
Domicile and legal form of the joint arrangement or associate:	South Africa
Proportion of ownership interest or participating share held by the entity:	33.33%
Proportion of voting rights held:	33.33%
The investment in the joint venture or associate is measured using:	Equity Method

Summarised financial information for the joint venture

	2023 '000	2022 '000
Current assets	4,786	6,597
Non-current assets	-	22
Current liabilities	1,141	9,413
Revenue	17,965	24
Expenditure	(12,146)	(1,347)
Surplus or deficit	5,819	(1,323)

The reporting period of Africa Aerospace and Defence (AAD) is from 1 March to 28 February annually. There are no significant unadjusted transactions or events occurring between 28 February and 31 March.

The total unrecognised share of losses in AAD for the reporting period amounts to R Nil thousand (2022: R1 324 thousand). The total cumulative unrecognised share of losses in AAD amounts to R Nil thousand (2022: R2 250 thousand).

	2023 '000	2022 '000

15. Financial instruments

Financial risk management

Introduction

The Group's financial instruments consist of cash and cash equivalents, accounts receivable, investments and accounts payable, which arise directly from its operations.

The principle market risks to which the Group is exposed through financial instruments are:

- Foreign exchange transactions
- Interest rates
- Credit risk
- Liquidity risk
- Investment risk

	2023		2022	
	Fair Value '000	Carrying Value '000	Fair Value '000	Carrying Value '000
Assets				
Loans and receivables	1,090,331	1,090,331	670,159	670,159
Trade and other receivables	423,430	423,430	204,496	204,496
Cash and cash equivalents	606,810	606,810	404,423	404,423
Cash allocated to insurance reserve	8,382	8,382	11,463	11,463
Cash allocated to Dockyard post-retirement benefit	51,709	51,709	49,777	49,777
At fair value	1,058,794	1,045,542	1,236,517	1,221,890
Government and other bonds	57,890	59,392	60,483	59,736
Shares - listed	67,606	61,435	74,682	64,714
Deposits at banking institutions	897,389	897,389	1,070,284	1,070,283
International investments	35,909	27,326	31,068	27,157
	2,149,125	2,135,873	1,906,676	1,892,049
Liabilities				
Trade and other payables	(365,894)	(365,894)	(192,438)	(192,438)
	1,783,231	**1,769,979**	**1,714,238**	**1,699,611**

Of the fair value presented above R198 642 thousand (2022: R195 040 thousand) relates to the Medical Benefit Fund.

Interest rate management

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's investments. In the ordinary course of business, the Group receives cash through the transfer payment to fund its operations as well as to fund working capital and capital expenditure requirements. This cash is managed to ensure surplus funds are invested in a manner to achieve maximum returns while minimising risk.

	2023 '000	2022 '000

15. Financial instruments (Continued)

Credit risk management

The entity only deposits cash surpluses with major banks of high quality credit standing.

Trade receivables comprise a widespread customer base. The granting of credit is controlled by well-established criteria, which are reviewed and updated on an ongoing basis.

At year end, the entity did not consider there to be any significant concentration of credit risk which has not been insured or adequately provided for. With respect to credit risk arising from the other financial assets of the entity, the entity's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The entity's objective is to maintain a balance between continuity of funding and flexibility through the use of call accounts.

The Group maintains a sufficient level of liquidity to be able to meet all its obligations. The Group has no overdraft facility but has other facilities which include guarantees and letters of credit.

Capital management

Capital includes equity attributable to the equity holders. The primary objective of the entity's capital management is to ensure that it maintains strong credit ratings and healthy capital ratios in order to support its business. The entity manages its capital structure and makes adjustments to it in the light of changes in economic conditions. No changes were made in the objective, policies or processes for the year ended 31 March 2023. The entity does not have use of capital from outside providers other than trade and other payables and have sufficient cash and cash equivalents to cover its net debt.

	2023 '000	2022 '000
Trade and other payables	(365,894)	(192,439)
Cash and cash equivalents	666,901	465,663
	301,007	**273,224**

Interest rate risk

The entity's exposure to the risk in market interest rates relates primarily to interest received on call accounts and fixed deposits.

Interest rate risk (sensitivity analysis)

The following table demonstrates the sensitivity to a change in interest rates with all other variables held constant.

	Increase/decrease in basis points	Increase/decrease in surplus for the year and equity
2023	+/- 50 +/- 25	+/- 7,8 million +/- 3,9 million
2022	+/- 50 +/- 25	+/- 7,3 million +/- 3,7 million

Investment risk

Investments in equities are valued at fair value and therefore susceptible to market fluctuations.

Investments are managed with the aim of maximising the Group's returns while limiting risk to acceptable levels.

Continuous monitoring takes place to ensure that appropriate assets are held where the liabilities are dependent upon the performance of the investment portfolio and that a suitable match of assets exists for all liabilities.

	2023 '000	2022 '000

15. Financial instruments (continued)

Foreign currency risk

Foreign currency risk is the risk that the value of an instrument will fluctuate in South African Rand due to changes in foreign exchange rates.

The entity is exposed to both foreign currency risks on investments that are denominated in a currency other than the respective functional currency of the entity and transactional currency exposures. The currency giving rise to the risk is primarily US dollar (USD).

These investments are monitored to ensure that the exposure to foreign currency risk is maintained within internal diversification guidelines.

16. Payables from exchange transactions

	2023 '000	2022 '000
Trade payables	30,055	16,345
Payments received in advanced - contract in process	90,113	62,428
Other payables	12,676	14,798
Accrued expense	48,728	50,103
Deposits received	41	44
	181,613	**143,718**

Aging of trade payables

	2023 '000	2022 '000
Current	23,785	13,135
31 - 60 days	4,049	203
61 days and older	2,221	3,007
	30,055	**16,345**

17. Payables from non-exchange transactions

	2023 '000	2022 '000
Taxes payable	19,166	23,102
Other payables from non-exchange transactions	6,476	6,296
Prepayments received for projects	13,848	15,167
Stock sales prepayment	144,791	4,155
	184,281	**48,720**

18. Deferred income

Movement during the year

	2023 '000	2022 '000
Balance at the beginning of the year - grants	44,113	58,796
Balance at the beginning of the year - other deferred income	15,497	25,872
Additions during the year - other deferred income	34,553	38,563
Utilised and other movements during the year - grants	(16,676)	(14,683)
Utilised and other movements during the year - other deferred income	(37,547)	(48,938)
	39,940	**59,610**

	2023 '000	2022 '000
Non-current liabilities	8,862	11,716
Current liabilities	31,078	47,894
	39,940	**59,610**

Unspent conditional grants and receipts relates to cash, stock and assets received in relation to the Department of Defence projects, of which the recognition of the income needs to be aligned with the incurring of the expenditure, or the fulfillment of the conditions of receipt.

	2023 '000	2022 '000

19. Provisions

Reconciliation of provisions - 2023

	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for leave	43,520	42,281	(40,590)	(2,153)	43,058
Provision for performance bonus	46,728	64,969	(46,266)	(645)	64,786
	90,248	**107,250**	**(86,856)**	**(2,798)**	**107,844**

Reconciliation of provisions - 2022

	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for leave	57,313	37,364	(48,731)	(2,427)	43,520
Provision for performance bonus	34,539	47,426	(34,320)	(917)	46,728
	91,852	**84,790**	**(83,051)**	**(3,344)**	**90,248**

Performance remuneration is discretionary and for the 2022/23 financial year will be paid upon the completion of the performance evaluation process, subject to approval by the Board of directors.

	2023 '000	2022 '000

20. Employee benefit obligations

20.1 Defined Contribution Pension Fund and Provident Fund

The entity contributes towards and operates the Armscor Defined Contribution Pension Fund and Provident Fund, which offer benefits based on the contributions by and made on behalf of every member as well as investment yields. At the time of establishment of the Armscor Defined Contribution Pension Fund, Armscor guaranteed pensioners that were transferred from the previous pension fund to the current pension fund to receive a pension at least equal to the pension received in terms of the previous fund. Armscor's liability in this regard for the remaining 1 member is R Nil (2022: R Nil) as the pensioners account in the pension fund is sufficiently funded.

The amount of contributions to the above scheme	68,946	70,641

20.1.1 Government Employees Pension Fund - Dockyard

The Group contributes towards the Government Employees Pension Fund, which offer benefits based on the contributions by and made on behalf of every member as well as investment yields.

The amount of contributions to the above scheme	17,439	22,890

20.2 Post-retirement medical benefits

The GRAP 25 valuation of the Group's post employment benefits was carried out at 31 March 2023.

Armscor does not have any further obligation for post-retirement medical benefits towards those members who accepted the buy-out settlement offered in previous years, except for the monthly allowances being paid to active members while remaining in Armscor's service.

	2023	2022	2021	2020	2019
Present value of unfunded obligations	260,954	284,106	250,894	218,976	226,164
Net obligation	260,954	284,106	250,894	218,976	226,164
Net liability in statement of financial position	**260,954**	**284,106**	**250,894**	**218,976**	**226,164**

The liability amount reflect the Group post-retirement medical benefit.

	2023	2022
Current portion of obligation	14,749	16,166
Non-current portion of obligation	246,205	267,940
	260,954	**284,106**

20.2.1 Post retirement medical benefits (excluding Armscor & Dockyard personnel transferred from the SA Navy)

The entity currently provides post retirement health care benefits to its retirees. The entitlement to post-retirement health care benefits is based on the qualifying employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Valuations of these obligations are carried out by independent qualified actuaries.

Based on the latest projection performed at 31 March 2023 the present value of the obligation is R108 568 thousand (2022: R106 562 thousand). Based on the latest projections, the value of the obligation for 31 March 2024 is R115 430 thousand. Based on the projection performed at 31 March 2023 financial assets held aside specifically for this purpose are sufficient to cover the liability. The financial assets held aside are R198 689 thousand (2022: R195 087 thousand).

	2023 '000	2022 '000

20. Employee benefit obligations (continued)

Reconciliation of the present value of the funded obligations (Group – excluding Dockyard)

	2023 '000	2022 '000
Opening balance	106,562	100,781
Current service cost	1,039	1,095
Interest cost	11,748	12,536
Expected employer benefit payments	(6,036)	(4,746)
Actuarial (gain)/loss recognised	(4,745)	(3,104)
Expected closing balance	**108,568**	**106,562**

Reconciliation of the net liability in the statement of financial position and amounts recognised in surplus/deficit

	2023 '000	2022 '000
Opening balance	106,562	100,781
Expense recognised in employee remuneration costs	8,042	10,527
Employer benefit payments	(6,036)	(4,746)
	108,568	**106,562**

Net benefit expense (recognised in employee remuneration costs)

	2023 '000	2022 '000
Current service cost	1,039	1,095
Interest cost	11,747	12,536
Actuarial (gain)/loss recognised	(4,745)	(3,104)
	8,041	**10,527**

The main actuarial assumptions are:

	2023	2022
Discount rate	12,0%	11,2%
Health care cost inflation	8,5%	8,6%
CPI inflation	6,5%	6,6%
Average retirement age	63	63

The value of the liability is particularly sensitive to the assumed rate of health care cost inflation. A one percentage change in the assumed rate would have the following effects for the benefit obligation and the aggregate service cost and interest cost:

	2023 '000	2022 '000

20. Employee benefit obligations (continued)

Sensitivity on defined benefit obligation	-1%	Base	+1%
Healthcare inflation	97,888	108,568	121,242
Service cost plus interest cost (next financial year)	12,153	13,593	15,315
Sensitivity results from previous valuation	-1%	Base	+1%
Healthcare inflation	95,629	106,562	119,551
Service cost plus interest cost (next financial year)	11,342	12,752	14,439

20.2.2 Post retirement medical benefits for Armscor & Dockyard personnel transferred from the SA Navy

The Group also provides post-retirement health care benefits to the Dockyard retirees. The entitlement to post retirement healthcare benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Valuations of these obligations are carried out by independent qualified actuaries.

The GRAP 25 valuation of the Dockyard's post-employment benefits was carried out on 31 March 2023. This actuarial valuation of the employer's liability as at 31 March 2023 arises as a result of post-employment healthcare benefits enjoyed by former SA Naval Dockyard employees. Based on the projection performed at 31 March 2023 the accrued liability exceeds the funds held aside specifically for this purpose. The funds held aside is R110 473 thousand (2022: R67 693 thousand).

The funds held aside specifically for this purpose at 31 March 2023 is not sufficient to cover the accrued liability and is summarised below:

Present value of the unfunded obligation	152,387	177,544
Net obligation	152,387	177,544
Less: Funds held aside	(110,473)	(67,693)
Net liability/(assets) as at 31 March	**41,914**	**109,851**

A projection of results of the valuation as at 31 March 2023 to 31 March 2024 is set out below:

Accrued liability as at 31 March 2023	152,387	177,544
Interest cost	17,824	19,275
Service cost	624	708
Expected employer benefit payments	(8,954)	(9,198)
Projected accrued liability for the next financial year	**161,881**	**188,329**

Actuarial assumptions for Dockyard
Reconciliation of present value of the unfunded obligation

Opening balance	177,544	150,113
Current service cost	708	1,220
Interest cost	19,275	19,803
Actuarial (gain)/loss recognised	(35,942)	13,504
Expected employer benefit payments	(9,198)	(7,096)
Closing balance	**152,387**	**177,544**

	2023 '000	2022 '000

20. Employee benefit obligations (continued)

Reconciliation of the present value of the unfunded obligation with the liability recognised in the Statement of financial position

	2023 '000	2022 '000
Present value of unfunded obligation	152,387	177,544

Net benefit expense (recognised in employee remuneration)

	2023 '000	2022 '000
Current service cost	708	1,220
Interest cost	19,275	19,803
Actuarial (gain)/loss recognised	(35,942)	13,504
	(15,959)	**34,527**

The main actuarial assumptions are:

	2023	2022
Discount rate	12,0%	11,4%
Health care cost inflation	8,5%	8,4%
CPI inflation	6,5%	6,4%
Average retirement age	63	63

The value of the liability is particularly sensitive to the assumed rate of healthcare cost inflation. A one percentage change in the assumed rate would have the following effects for the Group:

Sensitivity on defined benefit obligation	-1%	Base	+1%
Healthcare inflation	135,722	152,387	172,633
Service cost plus interest cost (next financial year)	16,326	18,448	21,033
Sensitivity results from previous valuation	-1%	Base	+1%
Healthcare inflation	160,053	177,544	194,497
Service cost plus interest cost (next financial year)	17,901	19,983	22,044

Summary of defined medical benefit expense for all funds

Defined medical benefit expense (post-retirement) included in employee cost:

	2023 '000	2022 '000
Current service cost	1,747	2,315
Interest cost	31,022	32,339
Actuarial (gain)/loss recognised	(40,687)	10,400
	(7,918)	**45,054**

	2023 '000	2022 '000

20. Employee benefit obligations (continued)

20.3 Other long-term employee benefits

Armscor offers eligible employees long service awards for attaining certain service.

There are two types of awards given by the entity: Long service leave and Long service cash awards

Long service leave award:

The Group provides employees with five (5) additional leave days per year after having completed ten (10) consecutive years of service. Employees annual leave entitlement is increased with these days whereby an employee qualifies for five (5) additional working days leave per year.

Long service cash award:

The Group expresses its appreciation for employees' loyal and faithful uninterrupted long service with the Group in accordance with the following predetermined rules, as set out below.

Years of services	Cash benefit
5 years' of service	R900
10 years' of service	R1 800
15 years' of service	R2 700
20 years' of service	R3 600
25 years' of service	R4 500
30 years' of service	R5 400
35 to 45 years' of service	R6 000

The GRAP 25 valuation of the obligation was carried out on the 31 March 2023 using the Projected Unit Credit method.

At the reporting date, the Group had 1374 (2022: 1354) employees entitled to the long service benefits.

Based on the latest projection performed at 31 March 2023 the present value of the combined obligation amounts to R82 855 thousand (2022: R80 711 thousand). Based on the latest projections, the value of the obligation for 31 March 2024 is R86 842 thousand. There are no plan assets for this liability.

	2023 '000	2022 '000

20. Employee benefit obligations (continued)

Reconciliation of the present value of the obligations

Opening balance	80,711	53,280
Current service cost	7,429	-
Interest cost	7,435	-
Expected employer benefit payments	(8,136)	-
Actuarial (gain)/loss recognised	(4,583)	27,431
Expected closing balance	**82,856**	**80,711**

Reconciliation of the net liability in the statement of financial position and amounts recognised in surplus/deficit

Opening balance	80,711	53,280
Expense recognised in employee remuneration costs	2,144	27,431
	82,855	**80,711**
Current portion of obligation	12,118	10,838
Non-current portion of obligation	70,738	69,873
Total obligation	**82,856**	**80,771**

Net benefit expense (recognised in employee related costs)

Current service cost	7,429	-
Interest cost	7,434	-
Actuarial (gain)/loss recognised	(4,583)	27,431
	10,280	**27,431**

The main assumptions are:

Discount rate	11,10%	9.86%
CPI inflation	6,80%	6,35%
Average remaining years of services	9	18

The value of the liability is particularly sensitive to the assumed discount rate, average annual staff turnover rate and the future salary inflation rate. Quantitative sensitivity analysis for significant assumptions on the obligation as at 31 March 2022 results when assumptions are increased or decreased are as shown below:

	2023 '000	2022 '000

Sensitivity on other long-term employee benefit obligation	-1%	Base	+1%
Discount rate	87,266	82,855	78,852
Future salary inflation	79,493	82,855	86,502
Sensitivity results from previous valuation	**-1%**	**Base**	**+1%**
Discount rate	85,357	80,711	76,518
Future salary inflation	76,968	80,711	84,791

21. Deferred tax

Deferred tax liability

	2023 '000	2022 '000
Deferred taxation	(6,092)	(7,048)

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

Reconciliation of deferred tax liability

	2023 '000	2022 '000
At beginning of year	(7,048)	(7,353)
Current year movement on fair value adjustment	956	305
	(6,092)	**(7,048)**

22. Share capital / contributed capital

	2023 '000	2022 '000
Authorised		
1 000 000 000 Ordinary shares of R1 each.	1,000,000	1,000,000
Issued		
Ordinary	75,000	75,000

Share Capital is under the control of the Executive Authority.

23. Revaluation reserve

The revaluation reserves relates to the revaluation surplus relating to the revalued land and buildings (refer to note 11, 13 and 8).

	2023 '000	2022 '000
Opening balance	1,241,540	1,674,637
Release to accumulated surplus	(17,752)	(27,879)
Revaluation (loss) for the year	-	(405,218)
	1,223,788	**1,241,540**

	2023 '000	2022 '000

24. Other non-distributable reserves

Property and Building Maintenance Reserve	220,195	232,555
Marketing Promotion Reserve	1,539	6,904
Computer Services Upgrade Reserve	106,389	131,187
Internal Insurance Reserve	8,382	11,463
Post-retirement Medical Reserve	58,763	17,916
	395,268	**400,025**

25. Revenue

Sale of goods	23,914	53,704
Rendering of services	252,460	215,106
Deferred income recognised	19,056	19,492
Rental income	59,089	62,722
Other income	18,338	18,450
Interest received (Refer to note 26)	126,312	86,188
Dividends received (Refer to note 26)	3,264	2,576
Government grants (Refer to note 27)	1,250,531	1,237,340
	1,752,964	**1,695,578**

The amount included in revenue arising from exchanges of goods or services are as follows:

Sale of goods	23,914	53,704
Rendering of services	252,460	215,106
Deferred income recognised	19,056	19,492
Rental income	59,089	62,722
Other income	18,338	18,450
Interest received	126,312	86,188
Dividends or similar distributions received	3,264	2,576
	502,433	**458,238**

The amount included in revenue arising from non-exchange transactions is as follows:

Government grants	1,250,531	1,237,340

Revenue for the group comprise of a government grant, sale of own manufactured goods, revenue from facilitating sale of defence equipment for government and entities, services rendered to the DOD utilising secondary grants received, income from leasing of own properties and interest income from investment of cash on hand.

	2023 '000	2022 '000
26. Investment revenue		
Dividend revenue		
Dividend received	3,264	2,576
Interest revenue		
Interest received - Investments	3,065	2,570
Interest received - Financial institutions	106,217	83,616
Interest charged on trade and other receivables	17,027	-
Interest received - other	3	2
	126,312	**86,188**
	129,576	**88,764**

Dividend income is recognised on the date the Armscor Medical Benefit Fund's right to receive payment is established.

27. Government grants & subsidies

	2023 '000	2022 '000
Operating grants		
Government grant - Department of Defence (DOD)	1,250,531	1,237,340

Conditional and Unconditional - Government grant

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

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

Nature and type of services in-kind are as follows:

In terms of the Dockyard transfer agreement for the Naval Dockyard in Simon's Town, the Dockyard Division, in its role of servicing the SA Navy, occupies a building owned by the SA Navy at no cost and has access to the use of the SA Navy's docking facilities at a valued gross market rental amount of R19 770 thousand per annum. The valuation was done at 31 March 2022 by an independent valuer, who holds a recognised and relevant professional qualification and who is not connected to the entity. The valuaiton is done indepently every three years.

	2023 '000	2022 '000

28. Employee related costs

Salaries and wages	757,368	774,687
Bonus	64,744	47,053
Employer contributions	155,459	143,603
Other payroll levies	-	-
Leave pay provision charge	39,887	32,428
Other short term employee related costs	20,800	16,547
13th cheques	57,537	56,985
Less: Employee costs included in other expenses	(42,258)	(43,364)
Long-term benefits - incentive scheme	2,144	27,432
Post-retirement benefits	(634)	140,463
	1,055,047	**1,195,834**

Remuneration of non-executive directors

Annual Remuneration	4,079	4,320

Refer to note 39 for remuneration of non-executive directors.

Included under the employee cost above, is volutary severance packages (VSP) cost paid in the 2022 financial year amounting R83 843 thousand.

29. Lease rentals on operating leases

Premises		
Contractual amounts	437	446
Contingent amounts	986	-
Motor vehicles		
Contractual amounts	31	27
Equipment		
Contractual amounts	1,663	1,482
Contingent amounts	92	249
	3,209	**2,204**

30. Impairment losses recognised

Debt impairment	8,687	1,604
Bad debts on receivables from exchange	35,273	6,070
	43,960	**7,674**

Notes to the Financial Statements

Financial Statements for the year ended 31 March 2023

	2023 '000	2022 '000
31. Cost of sales		
Cost of goods sold	17,637	50,822
Cost of rendering services	92,777	67,936
	110,414	**118,758**
32. General expenses		
Advertising	10,965	3,114
Auditors remuneration (Refer to note 34)	7,414	7,194
Consulting and professional fees	67,454	68,257
Fines and penalties	7	235
Other operating expenses	64,485	57,319
Computer services	13,177	12,021
Postage and communication	3,643	3,297
Printing and stationery	6,582	9,486
Repairs and maintenance	21,003	17,450
Subsistence and travel	10,483	11,911
Electricity	39,650	47,877
Movement in insurance reserve	3,080	3,252
	247,943	**241,413**
33. Fair value adjustments		
Investment property	3,500	(25,730)
Property, plant and equipment	(100)	(23,202)
Other financial assets		
• Other financial assets	(664)	2,055
	2,736	**(46,877)**
34. Auditor's remuneration		
Fees	7,328	7,172
Expenses	86	22
	7,414	**7,194**

35. Taxation

Major components of the tax (income) expense

	2023 '000	2022 '000
Current		
Local income tax - current period	790	2,775
Deferred		
Current year movement on fair value adjustment	(956)	(305)
	(166)	**2,470**

Reconciliation of the tax expense

Reconciliation between accounting surplus and tax expense.

	2023 '000	2022 '000
Accounting surplus before income tax	4,559	12,746
Tax at the applicable tax rate of 45% (2022: 45%)	2,052	5,736
Tax effect of adjustments on taxable income		
Non-taxable income	(2,596)	(6,012)
Non-deductible expenditure	544	119
Net capital gain	790	2,932
	790	**2,775**

Reconciliation of income tax rate:

	2023	2022
Current year's charge as a percentange of income before taxation	14 %	19 %
Non-taxable income	47 %	47 %
Capital gains tax	(16)%	(21)%
	45 %	**45 %**

36. Cash generated from operations

	2023 '000	2022 '000
Surplus before taxation	167,815	7,074
Adjustments for:		
Depreciation and amortisation	92,029	96,107
Loss on disposal of assets	39,582	2,362
Assets written off	852	246
Gain on foreign exchange transactions	(266)	(18,389)
Share in surplus of joint venture	(6,235)	-
Fair value adjustments	(2,736)	46,874
Dividends received	(3,264)	(2,576)
Bad debts recovered	43,960	7,674
Movements in retirement benefit assets and liabilities	(21,007)	60,644
Movements in provisions	17,596	(1,604)
Gain on disposal of investment	(2,697)	(8,967)
Normal taxation	(894)	(2,703)
Changes in working capital:		
Inventories	(2,373)	(448)
Receivables from exchange transactions	(262,628)	(92,881)
Receivables from non-exchange transactions	(68,953)	867
Payables from exchange transactions	37,895	7,332
VAT payable	-	(10,316)
Payables from non-exchange transactions	135,561	(2,352)
Deferred income	(19,670)	(25,059)
VAT receivable	(17,725)	(3,430)
	126,842	**60,455**

	2023 '000	2022 '000

37. Operating lease commitments - Group as lessee and lessor

Lessee disclosure

The Group has entered into operational leases on certain motor vehicles and items of machinery and equipment. Certain of the leases have expired and are running on a month to month basis. There are no restrictions placed upon the lessee by entering into these leases. The lease charges paid under operating leases for the year is R3 209 thousand (2022: R2 205 thousand) of which R Nil (2022: R151 thousand) relates to contingent rentals on operating leases.

Additionally, interdivisional lease charges, amounting to R24 281 thousand (2022: R21 956 thousand), for occupation of the floor space is charged for the administration of the building for maintenance of the Armscor Head Office.

Future minimum rentals payable under non-cancellable operating leases as at 31 March 2023 are as follows:

	2023 '000	2022 '000
Minimum lease payments due		
- within one year	409	724

Lessor disclosure

a) The Group entered into an operating lease with the DPWI relating to Armscor Head Office, with regards to office space and parking. The lease commenced on 1 June 2021 for a period of 60 months. There is a fixed escalation of 6,5% per year on the minimum lease installment. The minimal lease installments are payable monthly in advance.

b) The Group entered into operating leases relating to R&D facilities, with regards to office space and parking. One lease commenced on 1 June 2019 for a period of 119 months with a fixed escalation of 8% per year on the minimum lease installment. Another lease for a period of 10 years expiring in 2031 with a fixed escalation of CPI plus 2% per year on the minimum lease installment. The minimal lease installments are payable monthly in advance.

c) The Group entered into an operating lease relating to the Armscor Head Office, with regards to the rental of adverting space. The lease commenced on 1 December 2020 for a period of 119 months. There is a fixed escalation of 7,5% per year on the minimum lease installment. The minimal lease installments are payable monthly in advance.

Future minimum rentals receivable under non-cancellable operating leases as at 31 March 2023 are as follows:

	2023 '000	2022 '000
Minimum lease payments due		
- Within one year	59,508	55,279
- After one year but not more than five years	143,370	200,497
- More than five years	4,377	5,568
	207,255	**261,344**

38. Contingencies

Guarantees

Bank guarantees have been issued for Armscor in favour of a local contractor amounting to R161 thousand (2022: R161 thousand) for an advance payment received.

Bank guarantees have been issued on behalf of Armscor in favour of the South African Revenue Services: Customs and Excise and other creditors amounting to R7 276 thousand (2022: R15 697 thousand) with regard to local guarantees.

Alkantpan

At 31 March 2023 the Group had a contingent liability in respect of rehabilitation of the test range at Alkantpan.

	2023 '000	2022 '000

38. Contingencies (Continued)

In terms of the National Environmental Management Act (Act No. 107 of 1998), section 28 (1) which came into effect on 29 January 1999, Alkantpan must take reasonable steps to avoid, stop or minimize degradation of the environment. Certain options were investigated which included a project to acquire the best estimate for the cost of Alkantpan rehabilitating the land. The rehabilitation project estimated the cost based on two options, option 1 which involves the return of Alkantpan to the approved sustainable end state at the closure of operations, option 2 involves the clearing and fencing of the testing area. As no intention currently exist to cease activities at Alkantpan because Alkantpan is regarded as a strategic facility which is partially funded by the Department of Defence, Alkantpan has elected to manage the range in compliance with the Act and to continue with its day to day clearing actions, thus estimating the contingent liability to be R162 487 thousand.

A Steering Committee was formed between Alkantpan and the Department of Tourism, Environment and Conservation of which the first meeting took place on 5 September 2006. It was confirmed at this meeting that the Committee is to guide and advise Alkantpan on the environmental way forward and to ensure legislative compliance to the Act.

Meetings are scheduled to monitor the process and provide feedback on the progress. In terms of the last meeting held, no new issues or risks were reported at the meeting held and it was reported that the current measures in place are sufficient to manage the range in compliance with the Act.

The cost incurred for rehabilitating the site during the period under review was an amount of R Nil (2022: R Nil). The estimated costs to fully rehabilitate the test range cannot be reliably estimated at this stage and further discussions are still underway.

39. Related parties

The Armaments Corporation of South Africa SOC Ltd (“ARMSCOR”) is a statutory body, wholly owned by the State, established in terms of the Armaments Development and Production Act (Act No. 57 of 1968), and continues its existence through the Armaments Corporation of South Africa Ltd Act (Act No. 51 of 2003).

Armscor operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the constitutional independence of all three spheres of government in South Africa, only parties within the national sphere of government will be considered to be related parties.

To execute its mandate, Armscor received a transfer payment of R1 287 894 thousand (2022: R1 286 978 thousand) from the State through the Department of Defence (DOD) as well as secondary transfer payments (in terms of separated Memorandum of Agreements) for services rendered to the DOD.

Armscor does not disclose the value of transactions with other public sector entities as the transactions were concluded within normal operating procedures and on terms that are no more or no less favourable than the terms it would use to conclude transactions with another entity or person.

Dormant subsidiaries (At 100% Holdings)		
Armscor Defence Institutes SOC Ltd (loan to)	4,000	4,000
Erasmusrand Eiendomme SOC Ltd (loan from)	1	1
Oospark SOC Ltd (loan from)	1	1
Sportrand SOC Ltd (loan from)	1	1

Armscor is a 33,33% partner in Africa Aerospace and Defence, refer to note 14 for disclosure.

	Amounts owed by related parties		**Amounts owed to related parties**	
	2023 '000	2022 '000	2023 '000	2022 '000
Department of Defence	354,107	308,102	15,053	118,619
Major national public entities (Schedule 2 and 3 public entities)	3,551	4,895	21,813	185,396
National Government	149,081	81,865	150,471	-

	2023 '000	2022 '000

39. Related parties (continued)

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at normal market prices. Outstanding balances at the year end are unsecured, interest free and settlement occurs in cash. For the year ended 31 March 2023, the Group has a provision for doubtful debts of R153 252 thousand (2022: R105 489 thousand) relating to amounts owed by related parties.

Reconciliation of transfer payments received from the DOD	2023 '000	2022 '000
- Primary transfer payment recognised in comprehensive income	1,260,698	1,256,793
- Secondary transfer payment received	46,252	49,638
- Funds received for Dockyard transferred to deferred income due to outstanding conditions	-	-
- Deferred Income recognised as transfer payment	(19,056)	(19,453)
Total transfer payments allocated by the Department of Defence	**1,287,894**	**1,286,978**

Assets and stock transferred to the Dockyard with an effective date of 1 April 2010 have been fair valued at R16 024 thousand (2022: R32 111 thousand) and accounted for as deferred income, with the purpose of recognising it in line with the utilisation of the assets and stock.

Retirement benefits

Details of the Armscor retirement benefits are disclosed in note 20.

Other long-term employee benefits

Details of the Armscor other long-term employees benefits are disclosed in note 20.

Directors

Directors' interests in related parties: No interests in related parties have been declared by Armscor's Directors. Two of Armscor's Executive Directors and two Armscor Executive Committee Members are ex-officio directors of the Armscor Defence Institutes' Board of Directors as at 31 March 2023. One Armscor Executive Director is also ex-officio director on the Boards of Erasmusrand Eiendomme SOC Ltd, Sportrand SOC Ltd and Oospark SOC Ltd. These companies are dormant.

Key management personnel

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. All individuals who are members of the Armscor Executive Committee and the Board of Directors are regarded as key management.

Information on the remuneration of all key management personnel is disclosed below:

	2023 '000	2022 '000

39. Related parties (continued)

Remuneration of key management personnel

Executive Directors

2023	Basic salary	Other benefits	Allowances	Retirement and other contributions	Total
Name					
Mr JG Grobler	2,591	606	128	422	3,747
Adv. SP Mbada	3,341	1,210	209	508	5,268
	5,932	**1,816**	**337**	**930**	**9,015**

2022	Basic salary	Other benefits	Allowances	Retirement and other contributions	Total
Name					
Mr JG Grobler	2,462	489	127	403	3,481
Adv. SP Mbada	3,174	898	207	495	4,774
	5,636	**1,387**	**334**	**898**	**8,255**

	2023 '000	2022 '000

39. Related parties (continued)

Non-Executive Directors

2023		Fees for Board and Committee activities	Total
Name			
Amb. JT Ndhlovu		265	265
Mr MS Motimele		61	61
Dr. PD Dexter		1,436	1,436
Dr. RC Lubisi	8	267	267
Ms R Matenche	9	383	383
Ms F Skweyiya-Gushu		934	934
Mr TM Sukazi		174	174
Ms PN Mashinini		475	475
		3,995	**3,995**

2022		Fees for Board and Committee activities	Total
Name			
Amb. JT Ndhlovu		378	378
Mr MS Motimele	7	760	760
Dr. PD Dexter		962	962
Dr. RC Lubisi		332	332
Ms R Matenche		357	357
Maj Gen. (Ret) LC Pepani	6	384	384
Ms F Skweyiya-Gushu		326	326
Mr TM Sukazi		310	310
Ms PN Mashinini		422	422
		4,231	**4,231**

	2023 '000	2022 '000

39. Related parties (continued)

Non-Executive Audit Committee Member, not member of Board of Directors - 2023	Fees and Committee remuneration	Total
Mr DW Matebula	84	84

Non-Executive Audit Committee Member, not member of Board of Directors - 2022		Fees and Committee remuneration	Total
Mr DW Matebula	15	89	89

Executive committee members

2023		Basic salary	Other benefits	Allowances	Retirement and other contributions	Total
Name						
Prof. N Mkaza		2,606	571	18	397	3,592
Adv. N Mvambo		2,292	450	18	371	3,131
Adv. NB Senne	10	1,546	2,559	83	232	4,420
Dr. HL Jansen van Rensburg	11	945	3,238	55	168	4,406
MP Teffo		2,469	565	135	403	3,572
SA Tire	12	1,040	40	8	168	1,256
Q Sitsila	13	910	50	143	162	1,265
HM Peecha	14	1,075	190	218	232	1,715
		12,883	**7,663**	**678**	**2,133**	**23,357**

2022		Basic salary	Other benefits	Allowances	Retirement and other contributions	Total
Name						
Ms JL Mzili	5	704	1,324	66	105	2,199
Prof. N Mkaza		2,482	584	18	380	3,464
Adv. N Mvambo		2,078	485	18	325	2,906
Adv. NB Senne		2,210	562	124	358	3,254
Dr. HL Jansen van Rensburg		1,880	333	110	333	2,656
MP Teffo		2,165	452	134	364	3,115
		11,519	**3,740**	**470**	**1,865**	**17,594**

	2023 '000	2022 '000

39. Related parties (continued)

Notes:

1. Other benefits include bonus (13th cheque), performance related payments and leave capitalisation.
2. Allowances include sums paid by way of expense allowances, i.e. motor, cell phone, acting allowance and resettlement allowance as well as other long-term service benefits.
3. Retirement and other contributions include contributions made to Armscor retirement funds, medical aid, unemployment and funeral scheme.
4. No emoluments are paid to Armscor Defence Institutes ex-officio Directors: Mr JG Grobler and Adv. SP Mbada.
5. Ms JL Mzili retired from Armscor effective 31 July 2021.
6. Maj Gen. (Ret) LC Pepani resigned as a member of the Board of Directors effective 22 February 2022.
7. Mr MS Motimele's term came to an end effective 30 April 2022.
8. Dr. RC Lubisi resigned as a member of the Board of Directors effective 31 March 2023.
9. Ms R Matenche resigned as a member of the Board of Directors effective 26 May 2023.
10. Adv. NB Senne resigned from Armscor effective 30 November 2022.
11. Dr. HL Jansen van Rensburg retired from Armscor effective 31 July 2022.
12. Ms SA Tire was appointed to the Executive Committee from 1 August 2022.
13. Ms Q Sitsila was appointed acting Group Executive: Business Assurance from 1 Septemeber 2022.
14. Mr HM Peecha was appointed acting Executive Manager: Dockyard from 1 June 2022.
15. Mr DW Matebula was appointed as an independent member of the Audit Committee with effect from 1 May 2021.

	2023 '000	2022 '000

40. Change in estimate

Property, plant and equipment

During the year, the entity reviewed the estimated useful lives of its assets based on new information on the consumption and experience of the assets. As a result the expected useful lives of plant and machinery was increased to 32 years, and 25 years for office equipment, furniture and computers. This resulted in a decrease in depreciation of R5 696 thousand (2022: R4 693 thousand decrease).

The effect to future years cannot be determined as it is not practical due to system limitations.

41. Irregular and Fruitless & wasteful expenditure

	2023 '000	2022 '000
Irregular expenditure	27,501	17,456
Fruitless expenditure	353	13,427
Closing balance	**27,854**	**30,883**

Criminal or disciplinary steps taken as a result of losses, irregular and fruitless and wasteful expenditure

2022/23

A criminal case against officials with regards to fraudulent procurement processes that were under assessment in the previous year is in process with the Military Police and Director Public Prosecution Provincial.

Disciplinary action was taken against six officials for irregular and fruitless expenditure incurred due to non compliance to procurement regulations and losses suffered by the company. Three of the officials were dismissed whilst two resigned from the company. The disciplinary matter for one official is in progress. These matters were under assessment in the previous year.

42. Segment information

General information

Identification of segments

The entity activities are very broad, and are undertaken in a wide range of different geographical areas with different socioeconomic characteristics. To enable efficient and effective delivery on the strategy, the Executive Management structure sub-divided the group into three categories, namely: Armscor Corporate, Dockyard and Research and Development. In establishing the segments to report on, management organised the financial information according to the three existing structurs. Management uses these same segments for determining service level agreement objectives.

Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

The Medical Benefit Fund does not meet the definition of a segment, however the Fund is consolidated as part of the Group as it is deemed not to meet the requirements of a planned asset in terms of GRAP 25.

Measurement basis for inter-segment transactions:

Reported segments are measured based on management reporting for purposes of making decisions about allocating resources to the segment and assessing its performance.

The segments were structured such that the totals of revenues, reported surplus/(deficit), assets, liabilities and other material items corresponds to figures recognised in the Annual Financial Statements, except for inter-divisional transaction and balance eliminations. Therefore, a reconciliation of the segment figures to the Annual Financial Statements is not necessary.

	2023 '000	2022 '000

42. Segment information (Continued)

Types of goods and/or services by segment

These reportable segments as well as the goods and/or services for each segment are set out below:

Reportable segment	Goods and/or services
Arsmcor Corporate	Armscor renders acquisition management to the DOD and the SANDF throughout the life cycle of a product.
Dockyard	Management of the Armscor Dockyard as a strategic facility of the SA Navy to be available for service provision to the DOD.
Research and Development	Manages the research, test and evaluation strategic facilities of Armscor and manufacture respiratory equipment, which has the DOD as its primary client.

Figures in Rand thousand

42. Segment information (continued)

Segment surplus or deficit, assets and liabilities - 2023

	Armscor Corporate R'000	Dockyard R'000	Research and Development R'000	Eliminations R'000	Total R'000
Revenue					
Revenue from non-exchange transactions	849,307	267,146	134,078	-	1,250,531
Revenue from exchange transactions	144,722	7,841	251,799	(89,967)	314,395
Deferred income recognised	652	18,403	-	-	19,055
Interest revenue	103,287	4,478	14,095	(1,828)	120,032
Fair value adjustment	3,500	-	(100)	-	3,400
Share of surplus of joint venture	-	-	-	6,235	6,235
Total segment revenue	**1,101,468**	**297,868**	**399,872**	**(85,560)**	**1,713,648**
Entity's revenue					**1,713,648**
Expenditure					
Salaries and wages	620,844	203,331	234,872	79	1,059,126
Other expenses	216,029	42,223	187,308	(90,284)	355,276
Depreciation and amortisation	53,511	11,466	27,050	3	92,030
Impairment losses reversed/(recognised)	35,273	-	8,687	-	43,960
Total segment expenditure	**925,657**	**257,020**	**457,917**	**(90,202)**	**1,550,392**
Medical benefit fund total revenue					11,576
Medical benefit fund total expenditure					(6,851)
Entity's surplus (deficit) for the period					**167,981**

Figures in Rand thousand

42. Segment information (continued)

	Armscor Corporate R'000	Dockyard R'000	Research and Development R'000	Eliminations R'000	Total R'000
Assets					
Current assets	1,160,000	58,017	99,757	(122,224)	1,195,550
Non-current assets	1,707,781	28,127	438,690	(41,080)	2,133,518
Investment in joint venture	100	-	-	6,136	6,236
Total segment assets	**2,867,881**	**86,144**	**538,447**	**(157,168)**	**3,335,304**
Medical benefit fund assets					198,689
Total assets as per Statement of financial position					**3,533,993**
Liabilities					
Current liabilities	444,031	50,361	178,466	(141,222)	531,636
Non-current liabilities	122,003	170,992	59,677	(26,867)	325,805
Total segment liabilities	**566,034**	**221,353**	**238,143**	**(168,089)**	**857,441**
Medical benefit fund liabilities					6,139
Total liabilities as per Statement of financial position					**863,580**

	Armscor Corporate R'000	Dockyard R'000	Research and Development R'000
Other information			
Capital expenditure (excluding additions to financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts)	**75,801**	**6,517**	**26,281**

Capital expenditure consists of additions of property, plant and equipment and intangible assets.

Figures in Rand thousand

42. Segment information (continued)

Segment surplus or deficit, assets and liabilities 2022

	Armscor Corporate R'000	Dockyard R'000	Research and Development R'000	Eliminations R'000	Restated Total R'000
Revenue					
Revenue from non-exchange transactions	864,015	255,987	117,338	-	1,237,340
Revenue from exchange transactions	172,368	17,073	216,595	(39,959)	366,077
Deferred income recognised	3,512	15,980	-	-	19,492
Interest revenue	103,118	2,539	9,905	(34,695)	80,867
Fair value adjustment	(26,400)	-	(22,532)	-	(48,932)
Total segment revenue	**1,116,613**	**291,579**	**321,306**	**(74,654)**	**1,654,844**
Entity's revenue					**1,654,844**
Expenditure					
Salaries and wages	674,867	258,449	266,720	118	1,200,154
Other expenses	208,476	42,536	157,821	(52,251)	356,582
Depreciation and amortisation	54,256	11,939	29,912	-	96,107
Impairment losses reversed/(recognised)	6,070	-	1,603	-	7,673
Total segment expenditure	**943,669**	**312,924**	**456,056**	**(52,133)**	**1,660,516**
Total segmental surplus/(deficit)					**(5,672)**
Medical benefit fund total revenue					18,919
Medical benefit fund total expenditure					(8,643)
Entity's surplus (deficit) for the period					**4,604**

Figures in Rand thousand

42. Segment information (continued)

	Armscor Corporate R'000	Dockyard R'000	Research and Development R'000	Eliminations R'000	Restated Total R'000
Assets					
Current assets	628,199	38,124	115,370	(94,011)	687,682
Non-current assets	1,902,284	33,075	439,574	(41,100)	2,333,833
Investment in joint venture	100	-	-	(100)	-
Total segment assets	**2,530,583**	**71,199**	**554,944**	**(135,211)**	**3,021,515**
Medical benefit fund assets					195,087
Total assets as per Statement of financial position					**3,216,602**
Liabilities					
Current liabilities	275,633	56,849	137,638	(112,583)	357,537
Non-current liabilities	127,175	190,407	58,951	(27,004)	349,529
Total segment liabilities	**402,808**	**247,256**	**196,589**	**(139,587)**	**707,066**
Medical benefit fund liabilities					7,104
Total liabilities as per Statement of financial position					**714,170**

	Armscor Corporate R'000	Dockyard R'000	Research and Development R'000
Other information			
Capital expenditure (excluding additions to financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts)	**32,191**	**14,577**	**21,001**

Capital expenditure consists of additions of property, plant and equipment and intangible assets.

43. Capital commitments

	2023 '000	2022 '000
Authorised capital expenditure		
Capital expenditure approved but not yet contracted		
Property, plant and equipment	67,095	64,726
Intangible assets	10,470	8,181
	77,565	**72,907**

The committed expenditure relates to plant and equipment and computer software, and will be financed with cash reserves and funds internally generated.

	2023 '000	2022 '000

44. Accounting by principals and agents

Details of the arrangment(s) are as follows:

Transactions with the DOD

Armscor receives its mandate from the Armaments Corporation of South Africa, Limited Act (Act No. 51 of 2003) and the Armaments Corporation of South Africa, Limited amendment Act (Act No. 16 of 2005), in terms of which the Corporation is empowered to meet: 1) the defence matériel requirements of the DOD effectively, efficiently and economically; and 2) the defence technology, research, development, analysis, test and evaluation requirements of the DOD effectively, efficiently and economically.

To execute its mandate, Armscor received a Government grant from the State through the Department of Defence (DOD) as well as secondary grant (in terms of separate Memorandum of Agreements) for services rendered to the DOD.

The secondary grants received, based on Memorandum of Agreements (MOA) with the DOD, for specific services are recognised as revenue as and when the conditions of receipt thereof has been fulfilled and are included in sale of goods and services.

In return for the grants received, Armscor contracts with third parties as an agent acting on behalf/for the benefit of the DOD.

Defence Transformative Enterpise Development Programme (DEFTED)

The DEFTED programme is a ministerial programme approved by the Minister of Defence and Military Veterans. The programme seeks to address the lack of transformation within the SA Defence Sector and promote the inclusion of black owned SMMEs in the defence economy. The programme aims to support SMME capability development in various domains such as the Radar, Electronic Warfare and Maritime domains, which are strategic and sovereign capabilities according to Chapter 15 of the SA Defence Review of 2015. Armscor as the Principal agent of the DOD, entered into third party contracts with the SMMEs on behalf of the DOD. The DOD provided funding for the DEFTED programme through Armscor via MOA, which in turn was allocated to the SMMEs for Technology Development and Enterprise Development. Armscor then charges the DOD a management fee to manage and administer the programme.

Defence Engineering and Science University Programme (DESUP)

The DESUP programme is a ministerial programme approved by the Minister of Defence and Military Veterans. The programme aims to support qualifying students to further their studies especially in the field of engineering and science. Armscor as the Principal agent of the DOD, sponsors students with grants and bursaries to study at different tertiary institutions as well as providing opportunities for possible vacation work to them.

Licence agreements

Armscor enters into licencing agreements with third party on behalf of the DOD whereby Armscor grants third parties a non- exclusive licence to use licenced rights of the DOD for specific transactions/projects.

The operating procedures and terms and condition of the arrangements with the DOD are no more or no less favourable than the terms it would use to conclude transactions with another entity or person. There were no changes to the terms and condition of the arrangement that occurred during the reporting period.

South African Police Services (SAPS)

A Service Level Agreement (SLA) was signed between the South African Police Services (SAPS) and Armscor for the acquisition, procurement, disposal and maintenance services.

The services that Armscor is providing to SAPS are the services which Armscor provides on the basis of the Armscor Act. Thus the Armscor Act grants the relevant powers to Armscor to determine the terms and conditions of the transactions undertaken on behalf of SAPS.

In terms of the SLA Armscor is entitled to a service fee which is determined by the value added by Armscor and will be determined on a project by project basis.

	2023 '000	2022 '000

44. Accounting by principals and agents (continued)

Entity as agent

Resources held on behalf of the principal(s), but recognised in the entity's own financial statements

The amount of liabilities that were incurred on behalf of the DOD and recognised in Armscor's own financial statements is R145 157 thousand (2022: R19 261 thousand).

Assets of R69 495 thousand (2022: R Nil) held on behalf of principals have been recognised in Armscor's own financial statements.

Revenue recognised

The aggregate amount of revenue that the entity recognised as compensation for the transactions carried out on behalf of the principal is R1 660 thousand (2022: R2 675 thousand) relating to the SAPS programme.

Revenue and expenses that relate to transactions with third parties undertaken in terms of the principal-agent arrangement.

Amount of expenses paid on behalf of the principal during the reporting period

	2023 '000	2022 '000
Expenses incurred on behalf of the principal	74,692	8,316

Receivables and/or payables recognised based on the rights and obligations established in the binding arrangement(s)

Reconciliation of the carrying amount of receivables

	2023 '000	2022 '000
Receivable received on behalf of the principals		
Receivable received on behalf of the principal	69,495	-
All categories		
Receivable received on behalf of the principal	69,495	-

Reconciliation of the carrying amount of payables

	2023 '000	2022 '000
Payable incurred on behalf of the principals		
Opening balance	19,261	5,836
Cash paid on behalf of the principal	125,896	13,425
	145,157	**19,261**
All categories		
Opening balance	19,261	5,836
Cash paid on behalf of the principal	125,896	13,425
	145,157	**19,261**

	2023 '000	2022 '000

45. Entity Financial Statement

Entity financial statements have not been prepared as they are similar to Group financial statements. The only difference relates to the inclusion of a Joint Venture transaction, which amounts to R6 235 thousand (2022: R Nil).

Reconciliation of entity profits/(deficits) to Group profit/ (deficit)	2023 '000	2022 '000
Entity surplus/(deficit) after tax	161,746	4,604
Joint Venture transaction	6,235	-
Group surplus/(deficit)	**167,981**	**4,604**

Financial position differences:	2023 '000	2022 '000
Investment in Joint Venture	100	6,235
Equity	2,670,413	2,502,432

46. Restatements

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Prior period errors

The following prior period errors adjustments occurred:

Unauthorised transactions

During the 2022 financial year, and as part of investigation into suspected unauthorised transactions, the entity identified that invoices for services rendered related to the travel business were either duplicated or not invoiced to clients in prior years. The required adjustment was finalised in the current year. The errors have been corrected by restating each of the affected financial statement line items for prior periods.

Accounting by principals and agents

During the current year, the entity identified an agent principal transaction which was in effect in the prior year. The errors have been corrected by restating each of the affected financial statement line items for prior periods.

Receivables and/or payables recognised based on the rights and obligations established in the binding arrangement (Refer to note 44).

Employee benefit obligation

The short-term portion of the post medical retirement obligation amount was restated for comparative purposes based on information that is now available.

Cash flow statement

The line item amount on the cash flow statement for Interest income for the prior financial year was restated. This was to correct an oversight in the previous Annual Financial Statements whereby the disclosed line item amount for 2022 was incorrect.

	2023 '000	2022 '000

46. Restatements (continued)

Change in accounting policy

The following change in accounting policies occurred during the year under review.

Commitments

The entity reviewed its accounting policies to ensure financial statements provide reliable and more relevant information about the effects of its transactions. As a result, additional disclosure over and above the minimum disclosure requirement of standards of GRAP, and that provides more information on the entity's operations to the users, may be disclosed either in the notes to the annual financial statements or as supplementary information.

As a result of this change in accounting policy, contractual commitments disclosed in the financial statements in the prior year were restated to reflect the minimum disclosure requirements of GRAP related property plant and equipment and intangible assets.

Restatement due to changes in PFMA compliance reporting requirements

The following restatement adjustment occurred:

Irregular and Fruitless and Wasteful Expenditure

The Section 55(2)b of the PFMA requires that Armscor include in the annual report, particulars of any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year.

During the current financial year the reporting format for irregular and fruitless expenditure as prescribed by National Treasury in terms of the PFMA was changed. This results in a change in accounting policy for the presentation of irregular and fruitless expenditure. The revised policy requires disclosure only of the maters incurred in that particular year.

46.1 The detailed impact of the restatements of the 2022 year

Statement of financial performance (2022)	**As previously reported**	**Prior period error**	**Restated**
Sale of goods	62,021	(8,317)	53,704
Rendering of services	212,344	2,762	215,106
Other income	21,126	(2,676)	18,450
Impairment losses/(gain)	(328)	8,002	7,674
Cost of sales	(127,075)	8,317	(118,758)
Surplus for the year	12,520	(7,916)	4,604

	2023 '000	2022 '000

46. Restatements (continued)

Statement of financial position (2022)	As previously reported	Prior period error	Restated
Receivables from exchange transactions	231,526	(27,030)	204,496
Payables from exchange transactions	145,354	(1,636)	143,718
Payables from non-exchange transactions	47,242	1,478	48,720
Employee benefit obligation - Current	10,838	16,166	27,004
Employee benefit obligation - Non-Current	353,979	(16,166)	337,813
Accumulated surplus	812,897	(27,030)	785,867
Net Asset	2,529,462	(27,030)	2,502,432

Cash Flow Statement (2022)	As previously reported	Prior period error	Restated
Sale of goods and services	232,283	(8,779)	223,504
Other receipts	21,126	(2,676)	18,450
Interest income	55,994	22,252	78,246
Payment to suppliers	(279,284)	(10,797)	(290,081)

Statement of changes in net assets	Accumulated surplus
Balance at 1 April 2021	**732,988**
Correction of errors	(19,114)
Restated balance at 1 April 2021	**713,874**
Total changes/movement as previously reported	79,909
Correction of errors	(7,916)
Restated balance at 31 March 2022	**785,867**

Notes	As previously reported	Restatement due to changes in PFMA	Change in account policy	Prior period error	Restated
Irregular expenditure	26,805	(9,349)	-	-	17,456
Fruitless expenditure	163	13,264	-	-	13,427
Contractual commitments	158,528	-	(158,528)	-	-
Payable incurred on behalf of the principals	17,786	-	-	1,475	19,261

Supplementary Information (Unaudited)

1. Total Value of Acquisition activities

Government grant for operating expenditure is obtained to undertake acquisition actions. In accordance with Armscor's mandate, acquisition was undertaken on behalf of the following organisations:

	2023 '000	2022 '000	2021 '000	2020 '000	2019 '000
Department of Defence					
- Special Defence Account	1,684,668	2,687,289	2,879,000	3,989,000	3,782,000
- General Defence Account	1,524,883	1,389,563	1,801,000	1,801,000	1,820,000
Other	172,429	6,153	35,500	46,000	78,000
	3,381,980	**4,083,005**	**4,715,500**	**5,836,000**	**5,680,000**

2. SDA committed orders

Armscor enters into contracts with suppliers for acquisition related projects in the execution of its mandate, and as an agent of the Department of Defence. The contracts are settled utilising funds from the Special Defence Account, which is the primary financing tool for the acquisition of defence matériel.

The allocation of funds by the National Treasury to the Special Defence Account continues to decline at a level that puts the ability to fund existing and committed programmes at risk. The Department of Defence is, however, in discussion with the National Treasury for additional funding. Armscor does not place any order for the acquisition of defence matériel without confirmation from the Department of Defence that the necessary funding is available, and is also further reviewing options available in order to minimise the risk for Armscor and the Department of Defence on a continuous basis.

PART G:

ACRONYMS AND ABBREVIATIONS

GATEWAY TO DEFENCE SOLUTIONS

ARMSCOR
Armaments Corporation of South Africa SOC Ltd

ACRONYMS AND ABBREVIATIONS

7.1 LIST OF ACRONYMS AND ABBREVIATIONS

Armscor	Armaments Corporation of South Africa SOC (Ltd)	**MMIPV**	Multi-Mission Inshore Patrol Vessel
AGSA	Auditor-General of South Africa	**MMOPV**	Multi-Mission Offshore Patrol Vessel
AGM	Annual General Meeting	**MOU**	Memorandum of Understanding
AU	African Union	**MoA**	Memorandum of Agreement
AMD	Aerospace Maritime and Defence Industries Association	**MTSF**	Medium-Term Strategic Framework
ATNS	Air Traffic and Navigation Services	**MTEF**	Medium-Term Expenditure Framework
		MRO	Maintenance, Repair and Overhaul
B-BBEE	Broad-Based Black Economic Empowerment	**NCACC**	National Conventional Armaments Control Committee
BOE	Black Owned Enterprise	**NDP**	National Development Plan, Vision 2030
BWOE	Black Women Owned Enterprise	**NDIC**	National Defence Industry Council
		NGP	National Growth Path
		No.	Number
CAE	Chief Audit Executive	**OEM**	Original Equipment Manufacture
CFO	Chief Financial Officer	**OPCW**	Organisation for the Prohibition of Chemical Weapons
CEO	Chief Executive Officer	**OPDEF**	Operational Defect
COTS	Commercial off-the-Shelf	**PFMA**	Public Finance Management Act (Act No. 1 of 1999)
		PME	Prime Mission Equipment
		PPGI	Public-Private Growth Initiative
COVID-19	Coronavirus Disease 2019	**QAIP**	Quality Assurance and Improvement Programme
CSI	Corporate Social Investment	**R&D**	Research and Development
CSIR	Council for Science and Industrial Research	**Ret.**	Retired
CWC	Chemical Weapons Convention	**RFB**	Request for Bid
DCS	Department of Correctional Services	**RISDP**	Regional Indicative Strategic Development Plan
DSUP	Defence Engineering and Science University Programme	**RPE**	Respiratory Protective Equipment
DERIs	Defence Evaluation and Research Institutes	**RSA**	Republic of South Africa
DEPS	Defence Equipment Personnel Support	**SA**	South Africa
DEFTED	Defence Transformative Enterprise Development	**SAAF**	South African Air Force
DDSI	Defence Decision Support Institute	**SHE**	Safety, Health and Environment
DED	Docking and Essential Defects	**SHEQ**	Safety, Health and Environment and Quality
DIF	Defence Industry Fund	**STEM**	Science, Technology, Engineering and Mathematics
DIP	Defence Industrial Participation	**SADC**	Southern African Development Community
DOD	Department of Defence	**SADI**	South African Defence Industry
DPE	Department of Public Enterprise	**SAMHS**	South African Military Health Services
DMD	Defence Matériel Division	**SAPS**	South African Police Services
DPME	Department of Planning, Monitoring and Evaluation	**SANDF**	South African National Defence Force
DPWI	Department of Public Works and Infrastructure	**SANHO**	South African Navy Hydrographic Office
DR	Doctor	**SCM**	Supply Chain Management
DRBD	Defence Research and Development Board	**SDA**	Special Defence Account
DSCC	Defence Sector Charter Council	**SDG**	Sustainable Development Goal
dtic	Department of Trade, Industry and Competition	**SDIP**	Service Delivery Improvement Plan
		SDP	Strategic Defence Packages
		SIU	Special Investigating Unit
		SLA	Service Level Agreement
		SMMEs	

ACRONYMS AND ABBREVIATIONS

				Small, Medium, and Micro-sized Enterprises
ERGOTECH **EE** **ERP** **EXCO** **Etc.**	Ergonomics Technologies Employment Equity Enterprise Resource Planning Executive Committee Et cetera		**SOC**	State Owned Company
FA **Flamengro**	Financial Authority Fluid and Mechanical Engineering Group		**SONA** **SPs**	State of the Nation Address Strategic Plans
GBADS **GRAP** **GQA** **GDA**	Ground Based Defence System Generally Recognised Accounting Practice Government Quality Assurance General Defence Accounts		**TDPs** **TEMANI** **T&E**	Talent Development Programmes Technology Management, Analysis and Industrialisation Test and Evaluation
HR **HQ** **HSV**	Human Resources Head Office Hydrographic Survey Vessel		**UAV** **UN** **URBD**	Unmanned Aerial Vehicle United Nations Ultrasonic Broken Rail Detector
IP **i.e**	Intellectual Property id est		**YTD** **YDP**	Year to date Youth Development Programme
ICT	Information and Communication Technology		**VS** **VSP**	Versus Voluntary Severance Package
IT **ITSCM** **ISPPIA**	Information Technology Information Technology Service Continuity Management International Standard of Professional Practice in Internal Audit			
IMT **IPMAD** **ISO** **ITSCM**	Institute for Maritime Technology Intellectual Property Management Division International Organisation for Standardisation Information Technology Service Continuity Management			
JCPS	Justice Crime Prevention and Security			
KW	Kilowatts			

Contact Information

Tel: +27 12 428 1911
Fax: +21 12 428 5635
Email: info@armscor.co.za
Website: www.armscor.co.za
Postal Address:
Private Bag x337, Pretoria, 0001

Physical Address:
Cor. Delmas Drive & Nossob Street
Erasmuskloof Ext. 4, Pretoria

RP189/2023
ISBN: 978-0-621-51200-7

GATEWAY TO DEFENCE SOLUTIONS