Annual Report 2015/16

Gateway to Defence Solutions

ARMSCOR
Armaments Corporation of South Africa SOC Ltd

OUR VISION AND MISSION

WHO WE ARE

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

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

VISION

Armcor's vision is to become the premier defence technology and acquisition service provider for the South African Government and our allies on the African continent and the world.

MISSION

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

VALUES

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

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

OUR OBJECTIVES

The objectives of the Corporation are:

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

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

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HIGHLIGHTS

- Received a clean audit with no qualification from the Auditor-General.
- Armscor maintained a level 2 B-BBEE status.
- Armscor has set aside R350 000 to support Military Veterans.
- The Group reflects a surplus of R200,1 million compared to R84,2 million in the previous financial year.


70%
35°

CORPORATE PROFILE

01

01 CORPORATE PROFILE

WHAT WE DO

The Armscor Act provides that –

(1) The Corporation must:

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

(2) The Corporation may, with the approval of the Minister:

a. exploit such commercial opportunities as may arise out of the Corporation's duty to acquire defence matériel or to manage technology projects;
b. procure commercial matériel on behalf of any organ of state at the request of the organ of state in question; and
c. subject to the National Conventional Arms Control Act, 2002 (Act 41 of 2002), the Regulation of Foreign Military Assistance Act, 1998 (Act 15 of 1998), and the Non-Proliferation of Weapons of Mass Destruction Act, 1993 (Act 87 of 1993), perform any function which the Corporation may perform for or on behalf of the Department of Defence in terms of this Act or on behalf of any sovereign State.

(3) The Minister may:

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

GOVERNANCE

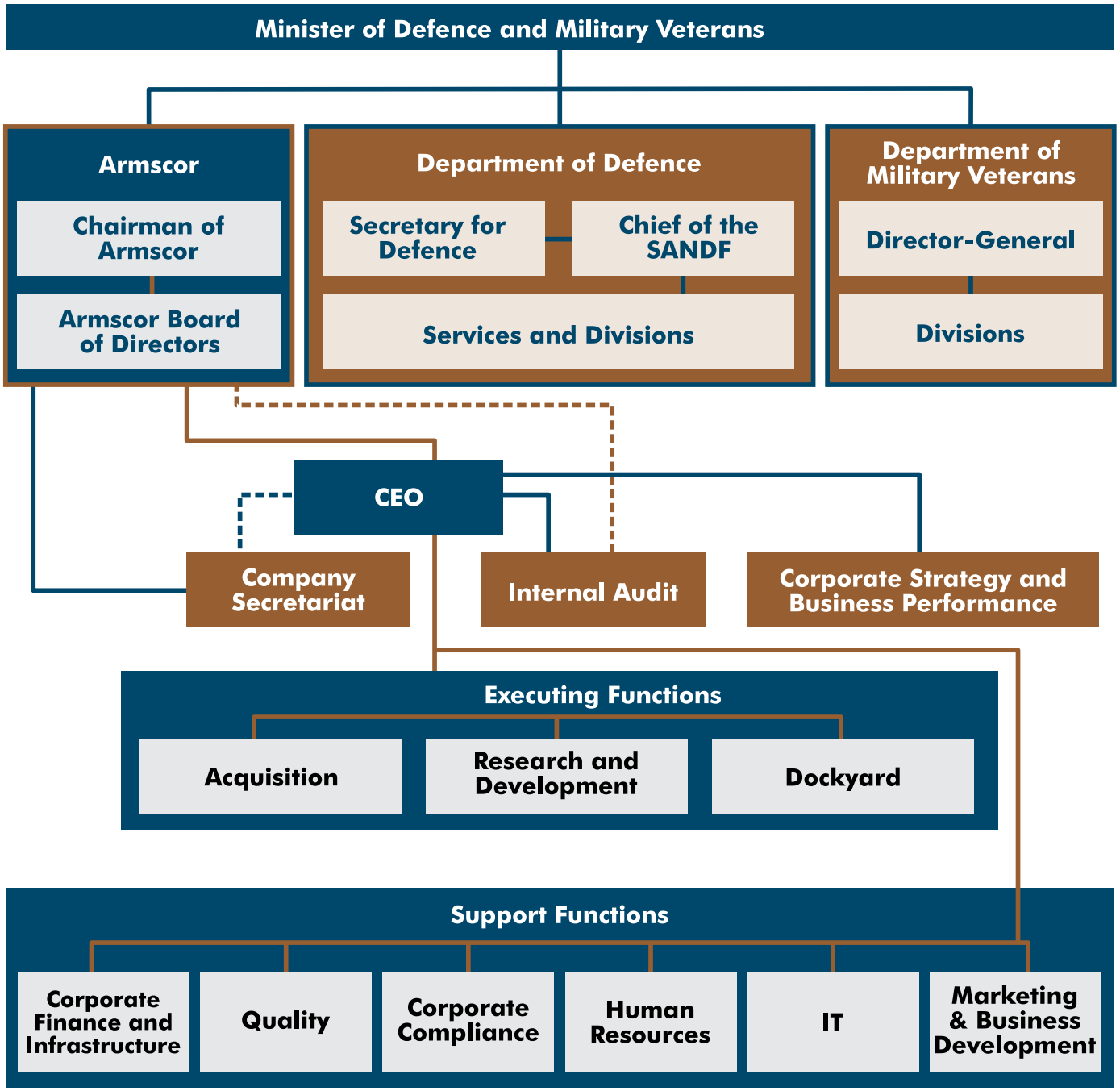
Armscor adheres to the principles of good corporate governance enshrined in the Public Finance Management Act (Act 1 of 1999) as amended (the PFMA). The observance of these principles ensures that Armscor maintains the integrity of its operations, thus credibility is gained from its important stakeholders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

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

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

Internal Audit as a critical pillar of governance is taking a lead role in the combined assurance model to coordinate the assurance efforts and guarantee adequate coverage of key strategic risks facing the organisation.

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



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

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

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

THE BOARD OF DIRECTORS

CHAIRMAN OF THE ARMSCOR BOARD | VICE ADMIRAL (RET) J MUDIMU

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

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

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

DEPUTY CHAIRPERSON | AMBASSADOR T SKWEYIYA

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

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

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

NON EXECUTIVE DIRECTOR AND CHAIRPERSON OF THE HUMAN RESOURCES, SOCIAL AND ETHICS COMMITTEE OF THE BOARD | ADV. VLA DE LA HUNT

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

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

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

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

NON EXECUTIVE DIRECTOR AND CHAIRPERSON OF THE AUDIT AND RISK COMMITTEE OF THE BOARD | DR M KHANYILE

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

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

NON EXECUTIVE DIRECTOR | MR RM VOKWANA

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

He was Deputy Director General – Secretariat of the Defence Service Commission, Department of Defence; as well as a businessman involved in mining, manufacturing, Information Communication Technology (ICT) and financial services, and senior manager at the National Intelligence Agency and the South African Secret Service. Prior to this, he worked for the African National Congress while in exile and in South Africa.

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

NON EXECUTIVE DIRECTOR | ADV. S BALOYI

Advocate Baloyi is currently practising as an Advocate and she is a member of the Victoria Mxenge Group of Advocates at the Johannesburg Bar.

Her practice covers administrative law, competition law, construction and engineering, commercial litigation, general litigation, constitutional law, employment law, labour law and local government law. She previously practised as an attorney and also worked as a researcher for Justice Albie Sachs at the Constitutional Court.

Most notably, she served as the stand-in Counsel for Advocate Ishmael Semenya as part of the South African Public Service Legal Team at the Marikana Commission of Inquiry.

She holds a B.Proc. and an LLB degree from University of South Africa.

She resigned from the Board on 17 March 2016.

NON EXECUTIVE DIRECTOR | MR N TYIBILIKA

Mr Tyibilika is a businessman with two main interests; an Engineering Projects House focused on design, development, system integration, installation, commissioning and consulting; and a Steel Service Centre that supplies all steel grades cut to size.

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

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

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

EXECUTIVE BOARD MEMBER AND CHIEF EXECUTIVE OFFICER | MR KPE WAKEFORD

His academic qualifications include:

- BA
- BA Hons

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

EXECUTIVE BOARD MEMBER AND CHIEF FINANCIAL OFFICER | MR JG GROBLER

His academic qualifications include:

- CA (SA)
- MBL
- M.Com (Tax)

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

COMPANY SECRETARY | ADV. NB SENNE

His academic qualifications include:

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

Areas of expertise: Governance, Legal and Strategy.

EXECUTIVE MANAGEMENT

CHIEF EXECUTIVE OFFICER | MR KPE WAKEFORD

His academic qualifications include:
- BA
- BA Hons

Areas of expertise: Financial Management and Strategic Management.

CHIEF FINANCIAL OFFICER | MR JG GROBLER

His academic qualifications include:
- CA (SA)
- MBL
- M.Com (Tax)

Areas of expertise: Financial Management and Corporate Governance.

GENERAL MANAGER: ACQUISITION | MR JS MKWANZI

His academic qualifications include:
- MBL
- Total Quality Management (TQM) Programme
- MSc (with specialisation in Project Management)

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

GENERAL MANAGER: RESEARCH AND DEVELOPMENT | MR TC RAMAN

His academic qualifications include:
- Bsc. Eng (Hons.) (Mechanical)
- MBA Aerospace
- Armscor Leadership Development Programme

Area of expertise: Strategic Management, Programme Management, Technology Management and Analysis, and System design.

He resigned from Armscor on 31 January 2016.

GENERAL MANAGER: RESEARCH AND DEVELOPMENT | PROF N MKAZA

His academic qualifications include:

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

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

GENERAL MANAGER: DOCKYARD | MR TT GODUKA

His academic qualifications include:

- B Eng (Mechanical)
- Post Graduate Diploma in Business Management

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

GENERAL MANAGER: QUALITY | MR GO RADEBE

His academic qualifications include:

- Master of Aviation Safety, Aircraft Airworthiness
- BSc (Hons) (Computer Science)
- Certificate in Quality Management
- Certificate in Project Management

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

GENERAL MANAGER: CORPORATE COMPLIANCE | ADV. CVV RAMPHELE

Her academic qualifications include:

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

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

GENERAL MANAGER: HUMAN RESOURCES | MR SP MBADA

His academic qualifications include:

- BJuris
- BA Hons
- MAP
- LLB

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

CHIEF INFORMATION OFFICER | MR NM MABASO

His academic qualifications include:

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

Area of expertise: Innovation, Knowledge Commons and Strategic Management of Technology.

GENERAL MANAGER: MARKETING AND BUSINESS DEVELOPMENT | MS JL MZILI

Her academic qualifications include:

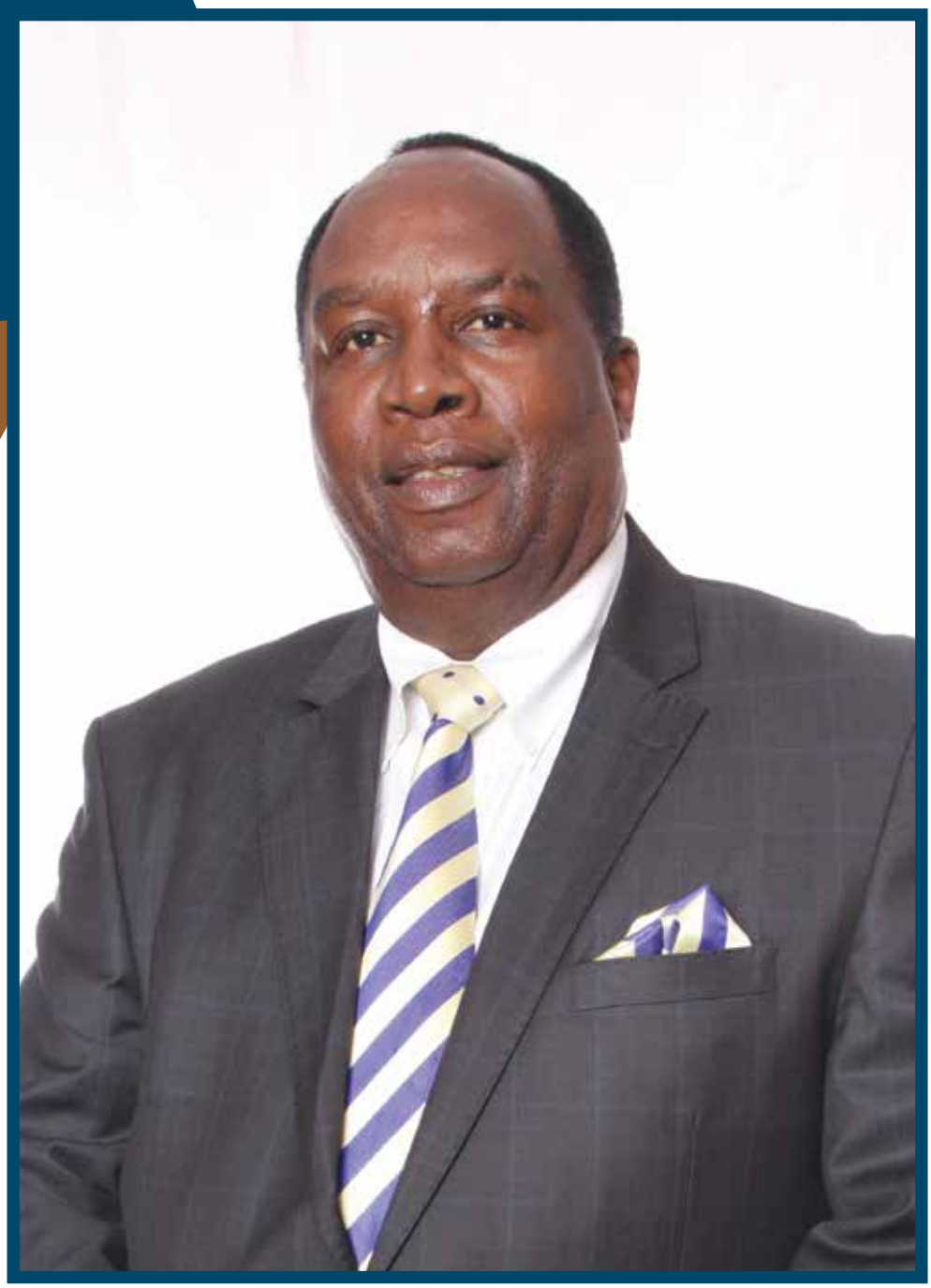
- BCom
- BCom (Hons) Business Management
- MBA
- Certificate in Strategic Management
- Certificate in Financial Performance Measurement and Control

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

FROM OUR LEADERSHIP

02

02 FROM OUR LEADERSHIP



CHAIRMAN'S REPORT

CHAIRMAN'S REPORT

This is the second Report that I have the honour to present as Chairman of Armscor. With the benefit of two full years behind me and one more year to go, I would like to start off with the Athenian Historian and Soldier, Xenophon who remarked about general leadership and we quote:

"On a man-of-war, when the ship is on the high seas and the rowers must toil all day to reach port, some rowing-masters can say and do the right thing to sharpen the men's spirits and make them work with a will. Other boatswains are so unintelligent that it takes them more than twice the time to finish the same voyage. Here they land bathed in sweat, with mutual congratulations, rowing-master and seaman. There they arrive with dry skin; they hate their master and he hates them".

I would like to think that as we approach the end of our term of Office, we will land bathed in sweat, with mutual congratulations that we have delivered to the South African National Defence Force, our other client Departments and our partners all over the world. We have attempted to create the correct atmosphere for this to happen by providing constructive critique to the plans and polices submitted to us for approval as a Board. In these critiques, topmost of our minds has been whether we are acting within our mandate (which includes contributing to the national imperatives of transformation and inclusiveness), whether we are satisfying the requirements of our clients In Time – On Time and whether we will be able to do so sustainably into the future.

To this end, 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.

The CEO has completed a full year of his five year term. He has brought energy and enthusiasm to the work of Armscor. We continue to benefit from his business insights and approaches, which have been brought to bear on the sustainability aspect of our strategy. We are immensely pleased that despite the frenetic pace at which we have been working over the past year, we have retained our clean audit status for the year under review.

Our Board vacancies have unfortunately increased during this period, putting additional strain on our already stretched Board members. However, we have done our best to function effectively even under these circumstances.

We would not have been able to achieve many of our strategic goals if it were not for the knowledge and hard work of our employees. We are also grateful to the Portfolio Committee on Defence and Military Veterans for their continuing support, guidance and critique. We furthermore wish to thank the Minister of Defence and Military Veterans for creating the environment in which Armscor remains a safe harbour for the requirements of the DOD and for the privilege of serving the people under her guidance.

Let me conclude with the words of Kenyan scholar, anti-corruption activist and writer, Patrick L. O. Lumumba, who states:

"I believe that we have reached a stage in life in the economic development of Africa where moving forward is perilous, moving backwards is cowardice and standing still is suicidal but we must persevere because winners do not quit and quitters never win".

We look forward to another year of good honest work.

Vice Admiral (Ret) J Mudimu
CHAIRMAN

CHIEF EXECUTIVE OFFICER'S REPORT

CHIEF EXECUTIVE OFFICER'S REPORT

INTRODUCTION

I was appointed by the Board of Directors as the Chief Executive Officer of Armscor on 1 May 2015. As Chief Executive Officer and as member of the Board of Directors of Armscor, it is my role to steer Armscor in the direction proposed by the shareholder, which is the State. Armscor is owned by the State and it has to align its activities with the policies of the State. The Minister of Defence and Military Veterans exercises ownership control over the Corporation on behalf of the State.

The defence environment the world over has its unique challenges. Armscor, being in that environment, had to confront these challenges plus those unique to our own domestic environment and came out victorious. Despite the challenging economic times, Armscor continued to make substantial progress in executing its mandate.

In order to maintain its position as a truly South African organization that is valued locally and globally, as well as to be the centre of technical excellence for defence acquisition and support services. Armscor had to keep evolving, while at the same time embracing and appreciating the constraints stemming from the defence environmental dynamics in the country, which impacted on Armscor's operations.

Key to Armscor's sustainability and survival is to ensure that it plays a central role in the achievement of a competitive South African Defence Industry.

Armscor has had to think differently and become resourceful in its way of doing business. The requirement to be lean and mean in our operations should not be understood to mean a lowering of standards in terms of the quality of services that we render to the Department of Defence.

Regardless of the challenges and turbulences that Armscor was faced with, the Corporation managed to rise above the challenges and focus on delivering on its mandate. We can look back at the preceding year and be proud that we were successful in turning the challenges were faced into opportunities.

THE YEAR AHEAD

The global system will probably not be in a growth phase in the next year. More important and on the longer term the inability of the current global political and economic models to offer hope to the global unemployed youth and labour in general, might have played a role in Brexit as a message of discontent to the establishment. Methods must be found to improve GDP per capita, especially in Africa and South Africa. This is acknowledged in the Defence Review 2015 when it refers to the need to improve human security – for practical purposes a continuous improvement of living standards. Through its support to the policies of the State, Armscor intends to play its role in this regard. The following Armscor initiatives can be mapped to this agenda: ample and urgent support for the development of the National Defence Industry, the development of defence industry small businesses, the exposure of both small and big business to opportunities (especially in Africa), and the provision of especially financial tools that can enable these emerging business to close deals.

Changes in the global balances of power also impact on Armscor. Key entities in the system, such as the European Union, are redefining themselves. The EU and the UK have major global defence suppliers that must adjust to new realities. Although the alliances of the Global South such as IBSA and BRICS are evolving, there are also practical problems. Multiple alliances members are in a difficult phase for at least the short term, with some member states struggling economically and politically. Irrespective, some practical co-ordination measures will have to be taken in the immediate future. The position of the South African defence industry in relation to those of historic alliance partners and possible future continental partners must be crystalised and integrated with meeting the requirements of re-equipping and restocking the SANDF. Synergy with African requirements will have to be aimed for. South Africa has the potential to be a catalyst for many partnerships across the continent and Armscor must play a role with security related opportunities.

No major changes are foreseen in the role of the United Nations (UN) on the continent. The budget spent by the UN peacekeeping division, the World Health Organisation and the World Food Program on the continent is substantial. South Africa has the most diversified economy on the continent and must take up a bigger role in supplying to the UN. As an established, expert and trusted procurer of services and products that will be utilised in a tough environment, Armscor is ideally positioned as an interface between UN demand and continental/South African supply. The setting up of such a relationship is making steady progress. This will play a role in improving the intracontinental trade that is currently only at 13% of continental GDP.

Some of the regional components of the African Standby Force are making good progress. The same is not true for the centralised African Standby Force quick reaction capability, whether in its original form or in the ACIRC incarnation. The ability to move a force of the appropriate weight rapidly across the continent is hamstrung by insufficient military strategic lift. This situation is fortunately improving due to the relatively rapid development of Africa's infrastructure. From a South African perspective one of the key continental, long term projects, the North-South Corridor, is progressing well in some parts of SADC (with delays in others). The scheduled opening of the Kazangula Bridge over the Zambezi River in 2018 can be a game changer for economic development along the North-South Corridor as well as for the deployment of military forces in SADC, over land.

In the future the rapidly growing population of the continent may combine with factors such as continued post-colonial intrastate conflict, short term lack of economic opportunities, climate change and changes in agricultural viability, to induce rapid urbanisation and migration across the continent. Despite the fact that the RSA is one of two countries in SADC that experience the most per-capita water stress and has periodic bouts of xenophobia, it continues to attract substantial illegal migration. This creates additional pressure in an environment that is struggling with service delivery and unemployment, especially under the RSA youth.

The SA Defence Review 2015 acknowledges most of the above and positions a major component of the SANDF as an expeditionary force that must be able to support the rooting of democracy in Africa by means of participation in peace missions and military interventions when so mandated. At home the SANDF plays a role in protecting the RSA economy through safeguarding its international borders and by protecting the Blue Economy. The SANDF has been underfunded for a long period and is currently unable to meet its Defence Review mandated commitments. The RSA economy is struggling and the IMF has lowered growth expectations to 0.1% for 2016. Reserve Bank and Treasury estimates are 0.6% and 0.9% respectively. The opportunity for extracting value from an investment in defence with a peace dividend in Africa has never been greater. However, it is difficult to fund such an investment from Treasury under current circumstances. Armscor has already and intends to continue to play a role in the innovative approaches for funding the SANDF and thereby promote economic development in the continent. This will enable the RSA to ride the wave of continental growth.

The interaction between a youthful population, connectivity, sensitive and responsible politicians, new approaches to education, viable urbanisation, inclusive growth and the kick starting of modern manufacturing, is key to either long term prosperity or long term insecurity on the continent, which is closely interlinked with RSA interests.

The Armscor Strategy and Strategic Plan acknowledge that multiple African countries are striving to establish manufacturing sectors, including defence industries in the short term. The Strategy engages the above realities in a manner that supports the SANDF as a strategic partner, intends to procure in ways to protect the RSA balance of payments, reduces unemployment, promotes small business manufacturing and positions them for playing a role in Africa.

SA DEFENCE REVIEW 2015

The SA Defence Review 2015 maps the way for the defence environment in which we are called upon to play our part in support of the mandate of the SANDF. This mandate of the SANDF is to defend and protect South Africa, to safeguard its borders and infrastructure, to promote peace and security in Africa and to perform developmental and other tasks assigned to it. We intend to play our supportive role with patriotism, diligence and enthusiasm.

The SA Defence Review 2015 provides the defence policy for South Africa that informs the defence trajectory to be pursued over multiple Medium-term Strategic Framework periods. The SA Defence Review 2015 maps out five strategic planning milestones as firm foundations to direct the development of South Africa's defence capabilities through a DOD Extended Long-term Defence Development Plan, inclusive of an aligned funding trajectory integrated into both the national and departmental planning, budgeting and reporting cycle.

The implementation of the SA Defence Review 2015 will be enabled through a Departmental Defence Review Implementation Plan providing strategic departmental direction to inform the further development and implementation of appropriate defence policy, strategy and planning imperatives within the Medium-term Strategic Framework periods under consideration. Armscor forms part of the Defence Review Implementation Project Team (DRIPT) to ensure that the plan is implemented. Armscor's strategy is aligned with the Defence Review.

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. The strategy seeks to make a significant impact on the service delivered to the Department of Defence, and by extension to the people of the Republic of South Africa. The strategy focuses on the urgency of the response of the Armaments Corporation of South Africa SOC Ltd (Armscor) to meet the needs of its clients, especially those relating to the client's national security operations.

With a clearer strategic vision as encapsulated in the strategy, Armscor established a foundation from which the Corporation can accomplish even greater things. The strategy has reinforced Armscor's mandate and has brought about greater efficiency in the manner in which the Corporation operates. Armscor's Corporate Plan was aligned with the new strategy and is aimed at promoting the effectiveness and efficiency of the organisation.

Enhancing Armscor's capabilities is an important thrust to ensure that the organization stays relevant and is able to meet the client's requirements on-time and in-time.

During the period under review, the Board of Directors approved Armscor's Strategy On-Time, In-Time - Towards a Sustainable Future on 19 August 2015. The PDSC reviewed and recommended the Armscor Strategy (which includes a funding innovation for the SANDF) be presented to the Minister of Defence and Military Veterans and the Council on Defence. The Minister of Defence and Military Veterans briefed the President. The Armscor

Strategy was supported at all levels. Preparations for interaction with National Treasury are currently underway. Insights gained from the economic analysis of the strategy led to interaction with Department Trade and Industry and Department Science and Technology. The aim is to promote alignment between national incentives and the needs of the Defence Industry. Armscor organizational and skills gaps, in relation to the strategy, were identified and a tender has been published to contract turnaround consultants to support Armscor with overcoming the strategic shortfalls.

ARMSCOR TURNAROUND

The Armscor Strategy On Time – In Time: Towards a Sustainable Future, calls primarily for service delivery in line with best practice and a sustainable organisation. The organisation has elected to undergo an organisational Turnaround to achieve its strategic goals, which focus on a number of aspects namely; acquisition reform, transformation of procurment to be broadened to supply chain management as a strategic enabler of Armscor's strategy, establishment of a sustainability function, etc.

Due to the reduced funding allocation and shortfalls in meeting current operational needs of Armscor, income generation and cost saving are a priority for the corporation. There are a number of sustainablity initiatives underway to achieve this, and employees were invited to submit their ideas for income generation, cost savings and de-bureaucratization of Armscor on the intranet.

PERFORMANCE REVIEW

HIGHLIGHTS AND CHALLENGES

Armscor had a good performance in the 2015/16 financial year, fulfilling our mandate of being an agency of the Department of Defence that can meet its main client's needs and requirements in an efficient and cost-effective manner. I am delighted to report some of the developments that took place and the achievements that were registered in the year under review.

PARLIAMENT

The Portfolio Committee on Defence has remained a trusted overseer of our work. During the period under review, we were delighted by the opportunity to host an oversight visit by members of the Committee. We hope to have many more such visits, which enable the Committee to see the strategic importance of our work.

The Corporate Plan for the 2015/16–2017/18 financial years was presented to the Parliamentary Portfolio Committee on Defence and Military Veterans. The report was well received.

This is the second year that all Public Entities tabled in Parliament which means full compliance by the department with National Regulatory Framework.

The Presidency has selected the Department of Defence & Military Veterans (DOD&MV) and the Public Entities within this department as the benchmark for Strategic Planning for all Government Departments and Public Entities. On 15 March 2016 the Presidency invited DOD & MV and Armscor to present to the other National Departments and Public Entities to help them improve on the following:

- Strategy, Strategic alignment and implementation of the Strategic Plan/Corporate Plan;
- Organisational performance, monitoring and evaluation; and
- Compliance with deadlines and statutory reporting.

CORPORATE GOALS

Customer satisfaction is the hallmark by which Armscor measures its performance and holds itself, as do its clients, to the highest standards of quality.

In the main, Armscor achieved most of its strategic corporate goals, while those not achieved were achieved later than planned.

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

FUNDING OF ARMSCOR

Armscor is a national asset and retains capabilities that are strategic to the South African National Defence Force (SANDF) specifically and to the defence industry generally. However, Armscor continues to face a number of challenges, such as financing of the organization, sustaining the required research strategic capabilities, transforming the organisation's race and gender composition and rejuvenation of the organization. Armscor has been experiencing strain on the Corporation's budget for years, which has been regarded as a challenge for the Corporation. Appropriate strategies have been developed to emerge from this situation as a strong service provider, not only to the DOD but also to other government departments such as South African Police Service (SAPS) and Correctional Services. This challenge was approached positively by Armscor and as a result Armscor and the Department of Defence developed a good working relationship.

The limited defence budget, which is competing with other national priorities such as the alleviation of poverty and bettering the lives of South Africans, could in future impact negatively on the quality of support that Armscor provides to the SANDF.

Armscor is funded to a large extent by means of a transfer payment via the Department of Defence. This has been insufficient to meet Armscor's operating budget and poses a challenge.

To this extent, cost containment initiatives resulted in a positive net result being achieved. However, the Group remains under considerable financial pressure to obtain sufficient sustainable funding to address equipment renewal, rejuvenation and transformation matters.

SUPPORT FOR DEPARTMENT OF DEFENCE ACTIVITIES ON THE AFRICAN CONTINENT

The South African government has invested in peace missions throughout the continent and is playing a leading role in expediting the centralized intervention capability of the continent. The SANDF's peace missions take place within either UN or AU sponsored missions. The AU and UN are therefore key entities for improving security on the continent. An investigation into the optimal relationship between the UN and South Africa/Armscor has led to initial interaction between the CEO of Armscor and the Head of Procurement of the United Nations. The intent was to identify possible areas of synergy between UN's support for peace missions in Africa and Armscor's procurement support to the SANDF and other militaries in Africa.

The initial interaction was followed up with a summit. The summit exposed the UN to the RSA defence industries' capabilities and enlightened the RSA defence industry for participating in UN tenders. Armscor presented its strategic intent, in particular with respect to the support of small businesses to access the UN market. This evolved into interaction with the Department of Small Businesses and the Department of Trade and Industry to ensure coordination of effort. Several South African companies already reported United Nations' interest in the provision of goods and services for troop support in Africa. The United Nations will be further engaged by Armscor on strategic partnering.

ACQUISITION

During the period under review, Armscor managed contracts relating to capital equipment acquisition projects to a value of R6 315.86 billion, representing approximately 52.86% of the total acquisition and procurement portfolio managed and executed for the DOD. The relative value of capital projects managed by Armscor has increased from 40.5% in the previous year, both as a result of a number of large capital acquisition programmes that commenced during the reporting period and also due to a lower spend on procurement and maintenance contracts which valued R5 631.01 billion (47.14% of the total portfolio) during the period under review.

Continued training, formalised succession planning and workforce rejuvenation remain a high priority to ensure continuity of critical expertise in the acquisition environment. The ageing personnel corps remains a risk that is receiving continues attention at executive level within Armscor.

In pursuance of the acquisition excellence objective of Armscor, a shortened and simplified tendering and contracting process was developed and implemented. This process should contribute to significantly shortening the processing time for simple off-the-shelf procured items. Although Armscor has managed to meet the processing time target of an average of 90 days from receipt of a valid requirement to placement of a contract by achieving an actual average of 75.2 days, the shortened process will facilitate the meeting of a new objective of 60 days average processing time for simple COTS requirements for the next reporting period. Furthermore, an Expedited Capital Acquisition Process was developed and implemented early in the reporting period for the acquisition of low-risk capabilities for the SANDF. This expedited capital acquisition process will significantly shorten the acquisition time for the acquisition of low risk capabilities and will assist greatly to facilitate quick response to urgent operational requirements, especially requirements emanating from peacekeeping operations. Umbrella agreements have been concluded with suppliers to implement a shortened contracting process for acquisition procurement (e.g. ammunitions).

Financial performance of acquisition projects continued to exceed the more stringent goals that were set for the reporting period. In this regard, Armscor managed to achieve 98.77% and 94.51% cash flow against its goals of 95% and 92% cash flow measured against planned cash flow for capital and operating funds respectively.

In line with the strategic objective of improved utilisation of offsets to support the NDP objectives and to develop SMME and BEE suppliers, the Defence Industrial Participation policy was updated and implemented during the course of the reporting period.

During the period under review, several capital acquisition projects were completed and satisfactory progress was made with several other major projects that will serve to provide the SANDF with new capabilities in the near future. Details of these projects are provided in the acquisition report.

RESEARCH AND DEVELOPMENT

The Research and Development (R&D) department manages the strategic capabilities and facilities under its control continue to grow and deliver defence operational and scientific research, test and evaluation services and technology management, analysis and innovation management services as identified by the Department of Defence (DOD). This is in accordance with the mandate and corporate goals of Armscor. Business partnering was explored and will further be explored under the Armscor Turnaround strategy to ensure sustainability. The Department managed to earn R 457m from commercial contracts over the period.

The department's various divisions have completed defence, technology, development, research, testing and evaluations planned for the review period. The Innovation

Division within the R&D department is responsible for assisting the DOD in preparing an Asset Register for all Intangible Assets within Armscor in accordance with Treasury's Modified Cash Standard. Armscor aided the DOD to obtain their first ever unqualified audit report for Intangible Assets for the 2014/15 financial year and retained status for 2015/16. In addition, Gerotek received ISO14001 & 18001 accreditations from SABS.

DOCKYARD

The Dockyard met its performance obligations in accordance with its performance agreement with the SA Navy. The Dockyard was also recertified as an ISO9001-2008 accredited operation.

The Minister of Defence and military Veterans (MOD&MV) pronounced during her budget vote speech in May 2015, that the Dockyard would be returning to SA Navy control and the rejuvenation of the Dockyard was seen as a "quick win" within the planning of the implementation of the Defence Review.

This then led to an Armscor presentation on the future of the Dockyard at a Council on Defence (COD) held on 26 May 15. The outcome of this meeting was that the MOD&MV instructed that a "harmonious approach" be obtained involving all stakeholders (SA Navy, Armscor and Denel).

This culminated in extensive engagement of the parties, which resulted in the establishment of three agreements namely the Transfer Agreement, Operations & Management Agreement and the Asset Transfer Agreement.

The process and the agreements were approved by the Council on Defence, together with the associated agreements. The agreements include suspensive conditions to be satisfied by Denel for the effectiveness of the transfer. Finalisation and operationalisation of the approvals is underway.

HUMAN RESOURCES

Our people remain the most valuable asset and we are committed to their ongoing development. Capability retention and succession planning is one of the key strategic objectives of Armscor and the programmes in place are being monitored. Armscor continues to drive transformation as part of its corporate objectives through implementation of its Employment Equity Plan.

Armscor is placing greater focus to develop and retain the skills of employees that lead to the achievement of the strategic and business objectives. Areas of skills shortage and identified technologies that are not available in South Africa were prioritized. Partnerships with foreign countries and universities abroad were established.

Armscor promotes a culture of learning across all occupational levels in the organisation through Adult Education and Training Programmes (AET). The Talent Development Programme empowers newly appointed graduates with opportunities to acquire skills by working on advanced technologies at Armscor and other innovative defence partners in the industry.

COMPLIANCE

Armscor's Corporate Compliance aims at assisting Armscor to comply with applicable statutory, regulatory and policy requirements.

The finalized Corporate Risk Register has been in operation for more than a year. The Board approved Compliance and Risk Policy sets out the roles and responsibilities of Compliance and Risk as per the King III report. The Fraud Risk Management Policy promotes a zero tolerance approach to fraud and corruption. During the period, compliance was achieved in respect of the above policies and the risk register.

Armscor successfully operationalised the Arms Control and Asset Tracking System (ACATS). Audits are more robust and continuous, while issues of non-compliance are identified and dealt with abruptly. A policy process on management of firearms under the control of Armscor was approved for implementation. The extension of ACATS system is being considered to host the firearms database with functionality of issuing permits and tracking the items on the system. This will strengthen management of firearms efficiency.

A B-BBEE status of Level 2 was maintained in this reporting period with an improvement on Employment Equity and Skills Development elements.

The approved Defence Industry B-BBEE transformation must be guided and driven by its Defence Sector Transformation Charter under the auspices of the Codes of Good Practice. Armscor will facilitate the process of its development in partnership with relevant stakeholders. The process will unfold in the next financial year.

Once again, Armscor has lived up to its values and subscribes to principles of good governance. A clean audit opinion from the Auditor General, and B-BBEE level 2 were achieved.

CORPORATE SOCIAL INVESTMENT

Armscor is committed to development, nation building and improving the lives of our people.

Armscor supports corporate social investment in education initiatives that focus on mathematics, science and technology. High investment in fields of science and engineering to train the youth for Armscor's future needs. This is in keeping with Armscor's Corporate Investment Strategy and long term sustainability goals.

Investment in the more needy communities in which it operates or conducts its business continues unabated. Some resources were allocated to deserving schools to enhance teaching and learning mathematics and science.

Donations were made to the elderly and youth in Prieska. Honouring Madiba's legacy the Mandela Day Initiative was supported making a difference in other's lives. Armscor supports initiatives promoting a more inclusive and broad based economy. During the review period, Armscor revamped the school premises of Ribane-Laka Secondary School in Mamelodi.

MILITARY VETERANS

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

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

Armscor was instrumental in providing support during the launch of the Women Military Veterans Association (WOMVASA). Partnering with the Department of Military Veterans (DMV), Armscor hosted an empowering entrepreneurial half day workshop for identified military veterans' women on the 21 August 2015.

Armscor partnered with SANMVA in nationally distributing 5000 branded blankets to Military Veterans. During Women's Month, 29 August 2015, the Minister of Defence & Military Veterans, Ms Nosiviwe Mapisa-Nqakula honoured women Military Veterans and struggle veterans from across the Nelson Mandela Bay Metro where Armscor donated 500 branded blankets to Military Veterans as a token of appreciation and as a reminder that their contribution to the liberation struggle was not in vain and shall never be forgotten.

Armscor set aside R350k to support women Military Veterans for enterprise development and incubating purposes while also providing support to establish a legally and recognized entity over the review period.

Department of Military Veterans signed a Memorandum of Understanding with Armscor.

Currently, Armscor is working on an ESD Project supported by DMV.

AFRICA AEROSPACE AND DEFENCE EXHIBITION (AAD 2016)

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 14 – 18 September 2016.

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.

ACKNOWLEDGEMENTS

I wish to extend my gratitude to the Minister, Ms Nosiviwe Mapisa-Nqakula and Deputy Minister, Mr Kebby Mphatsoe for their leadership and dedication with me to give strategic direction to Armscor. A word of thanks is directed to the officials of the Department of Defence who were at all times available and willing to assist in matters of departmental procedure. We assure them of our support and commitment.

A special word of thanks to the Secretary for Defence, Dr S Gulube and the Chief of the SANDF, Gen S Shoke, for the confidence they have shown in the Armscor team. Their contribution and invaluable support to Armscor are highly appreciated.

Parliament's Portfolio Committee on Defence and Military Veterans has contributed to the successful execution of our work. It's guidance and oversight role is appreciated. On behalf of the Directors, Executive Committee and staff, I extend to the Chairperson and Members of the Portfolio Committee our profound gratefulness.

It was a pleasure and continues to be a pleasure to have served our primary clients, namely the SANDF as a whole, the SA Police Service and SA Correctional Services during the year under review and we thank them for their support as well. To all other stakeholders, I wish to express appreciation for their support and assistance in the past year in helping Armscor to render an excellent service to all its clients.

I am greatly indebted to the Board of Directors who have all been pivotal in steering this national asset, Armscor, in a direction in which it has fulfilled its mandate with professionalism, dedication and integrity. Their stewardship of the organization has enabled us to hold our heads high in the knowledge that the organisation's commitment to good governance, efficiency and professionalism was being monitored by a Board that maintained the highest ethical standards and degree of vigilance. The sacrifice they made in making themselves available to attend to organisational matters during the year under review are much appreciated.

I wish to express my appreciation to the Executive Committee and all the staff who are the indispensable human capital which ensured, through their dedication, contributions and sacrifices, that keeps Armscor at the cutting edge of delivery and efficiency, and a reservoir

of scientific and engineering excellence. I thank them immensely. Without them the success recorded during the year under review would not have been realised.

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

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

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

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

Thank you!

Mr KPE Wakeford
CHIEF EXECUTIVE OFFICER

OPERATIONAL REVIEW

03

03 OPERATIONAL REVIEW

1. ACQUISITION

Armscor's core function is to acquire defence matériel and related services, primarily for the South African National Defence Force (SANDF) and other Government departments and services with permission from the Minister of Defence.

The acquisition role of Armscor entails all the actions that need to be taken to satisfy the need for matériel, facilities and services intended for use in meeting client requirements or in support thereof. This includes:

- requirements analysis;
- technology development;
- design and development of products and product systems;
- the industrialisation and manufacturing of mature products and product systems that fully meet the stated user requirements; and
- procurement of already existing and qualified products as well as the acquisition of product system support for user systems during the operational lifetime of the systems.

The acquisition responsibility of Armscor can be broadly classified into two main groups, namely:

- Capital acquisition (funded by the Special Defence Account (SDA)) which entails projects that cater for technology development, directed systems development and the subsequent production of new defence matériel; and
- Operating procurement which is maintenance and support for existing equipment and systems (funded by the General Defence Account (GDA)).

During the financial year under review, Armscor managed contracts relating to capital equipment acquisition projects to a value of R6,315.86 billion, representing approximately 52.86% of the total acquisition and procurement portfolio managed and executed for the DOD. Procurement and maintenance and support contracts to a value of R5,631.01 billion (or approximatley 47.14% of the total portfolio) were managed during the year under review.

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

1.1 STATUS OF ACQUISITION OBJECTIVES

Training of personnel within the acquisition environment remains a high priority for the organisation. This training involves technical specialist, programme management and systems engineering training to new appointees and refresher training to existing personnel. A number of specifically developed in-house computer-based training courses and modules are focussed specifically on the competencies required by personnel in the acquisition environment. Personnel are therefore actively encouraged to enrol for these courses.

During the past year, special attention was afforded to formalised succession planning to ensure continuity of critical expertise in the acquisition environment. Mentors with expertise in critical technological areas were identified and a gap-analysis relating to critical knowledge between the knowledge holders and their identified successors was performed. Based on the findings, specific training to narrow the identified gaps was identified. Excellent adherence to the training plans were achieved during the past year and this initiative will continue to remain a high priority during following years.

Furthermore, Armscor is committed to providing the experience required by Engineering Council of South Africa (ECSA) for professional registration to young engineers and scientists by placing the newly graduates in the industry for a period of one to two years to obtain those required outcomes that is difficult to obtain without the ambit of Armscor's normal activities. This initiative has proven to be very successful, both in providing all the required outcomes vital for professional registration and in giving industrial exposure to newly graduates engineers before they become involved in project management within the Armscor environment.

Amongst others, the Acquisition Excellence objective of the Armscor Strategy mandates the improvement of the acquisition processes to ensure that a cost effective, adaptable, and agile acquisition capability provides for a timeous response to DOD's requirements. In line with this objective, the initiative of simplifying the acquisition processes within Armscor progressed very well during the past year with the finalisation and implementation of an updated Acquisition Practice. The Joint Armscor/DOD Policy, *"Process and Procedure for the Acquisition of Armaments in the Department of Defence"* was also significantly updated, and this document will be used to guide the Capital Acquisition process in future. To cater for rapid acquisition of Military and Commercial Off-The-Shelf equipment in response to urgent requirements from the DOD, an Expedited Acquisition Process was developed and implemented early in the financial year. This expedited process will significantly shorten the

acquisition time for the acquisition of low risk capabilities.

A shortened and simplified tendering and contracting process was developed during the previous financial year and this should significantly shorten the processing time for simple off-the-shelf procured items.

The Defence Industrial Participation policy was updated and implemented in line with the strategic objective to improve utilisation of offsets to support the National Development Programme (NDP) objectives and to develop Small Medium Micro Enterprises (SMME's) and BEE suppliers.

A review and update of Armscor's standard for acquisition baselines which was initiated during the 2014/15 financial year, was finalised during the reporting period. This updated and simplified standard serves to achieve better alignment with the newly approved Acquisition Practice and provides more impetus to the core engineering activities that are required during the execution of the acquisition process.

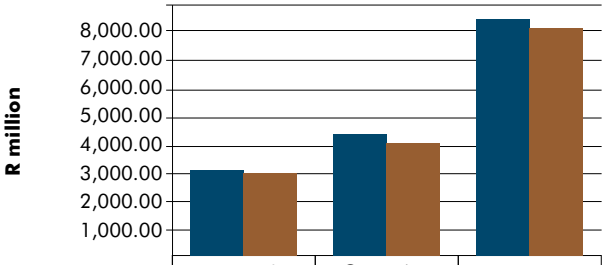
A computerised Business Register was developed and implemented. This Business Register serves to track the execution of all requirements being executed by Armscor and provides an invaluable management tool to ensure timeous execution of all requirements.

1.2 ACQUISITION FINANCIAL PERFORMANCE

An important objective of the Acquisition Department remains the achievement of planned commitment and expenditure of the DOD funds. Achievement of all planned cash flow within any particular financial year depends on many factors, such as timeous receipt of requirements from the DOD, efficiency of internal Armscor processes to place contracts for the identified requirements, and ability and capacity of industry to deliver contracted outputs on time.

Armscor's cash flow performance is measured against the joint Armscor/DOD cash flow planning during the first revision, adjusted with mutually-agreed deductions, due to factors beyond Armscor's control. Factors beyond Armscor's control would typically be regarded, for example funds that are contracted in a particular financial year with the aim of committing the funds in order to achieve milestones payments early next financial year.

A total amount of R2 272,33 million which was planned during the first revision in June 2015 as cash flow for the 2015/16 year, is regarded as not being achievable due to factors beyond Armscor's control and is supported by agreements from the DOD. Taking this deduction into consideration, Armscor managed to achieve and exceed its targets for the year of 95% cash flow and 92% cash flow against the planned cash flow for capital and operating funds respectively by a significant margin. The graph in **Figure 1** below reflects the cash flow planned that has been adjusted by deducting commitments that could not achieve cash flow due to factors beyond Armscor's control versus actual cash flow achieved.



	Capital Budget	Operating Budget	Total
Adjusted Planned Cash flow	3064.39	4409.50	7473.89
Actual Cash flow	3026.68	4167.34	7194.02

Figure 1 : Actual vs Adjusted Planned cash flow for 2015/16 Financial Year

In spite of the continued challenges of receiving requirements in time to contract industry and effect payments in the applicable financial year, Armscor has managed to achieve cash flow in excess of 70% of ordered values for the past five years. This annual trend is indicated in the graph in **Figure 2** below. The adjusted cash flow graph, which excludes orders placed with no planned cash flow, is indicative of the industry's ability and capacity to perform against contracted milestones. In order to enhance cash flow performance in future, it will be imperative to ensure better alignment of the DOD budget with industry loading and capacity, as well as better phasing of projects to minimise the cyclic effect of the budget on specific companies within the industry.

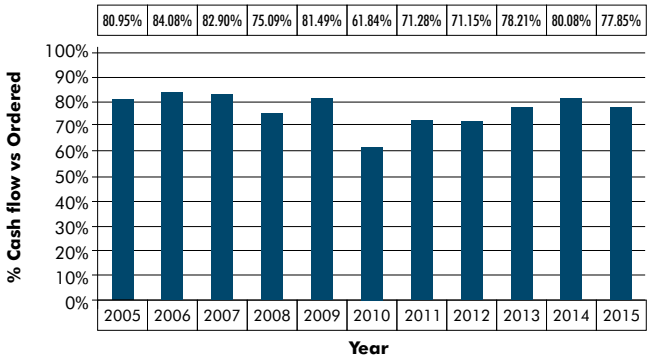


Figure 2 : Adjusted cash flow as a percentage of ordered values per financial year.

1.3 ACQUISITION HIGHLIGHTS

1.3.1 MARITIME SYSTEMS

Hydrographic Survey Capability

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

a. A Hydrographic Survey Vessel, including two fully integrated inshore survey motor boats and one seaboat. This new vessel will serve as a replacement for the SAS Protea, which is still in service with the Navy but which is suffering from obsolescence and which no longer fully meets the functional requirements of the SA Navy.
b. Upgrading of the current shore-based hydrographic office infrastructure located at the Silvermine Complex in the Cape Peninsula.
c. All associated integrated logistic support elements that are required to support the total capability.

The Request for Offer for this capability was advertised during July 2014 and offers were received during June 2015. The total cost of the offers received, exceeded the currently available capital budget for this capability, and the DOD and the SA Navy are in the process of reviewing the total budget before a decision is made regarding the continuation of the contracting process.

Multi-Mission Patrol Capability

This programme entails the acquisition of a new Multi-Mission Patrol Capability for the SA Navy, comprising of three Offshore Patrol Vessels (OPVs) and three Inshore Patrol Vessels (IPVs). The Requests for Offer for the Inshore and Offshore Patrol vessels respectively, were advertised by Armscor during November 2014 and offers were received at the end of September 2015. Similar to the Hydrographic Survey Capability, the cost of acquiring the full capability exceeded the presently allocated budget for this programme. The DOD and SA Navy are in the process of reviewing the budget before a decision regarding the continuation of the contracting process is made.

Tug Replacement Programme

This programme entails the replacement of the aging SA Navy Harbour Tugs, De Nuys and De Mist, whom have reached the end of their usefull and economically supportable lives. The construction of the two new products systems commenced during January 2014. The new and fully qualified tugs, together with integrated logistic support (named IMVUBU and INYATHI), have been delivered during July 2015 and February 2016 respectively and have successfully been taken into operational use by the SA Navy Harbour Master in Simon's Town.

Midlife Upgrade of the SA Navy Frigates and Submarines

Two programmes relating to the midlife upgrade of both the submarines and the frigates of the SA Navy are presently in the early phases of the acquisition process where feasibility studies are being conducted. The aim of the programmes are to combat obsolescence of the platforms through replacement of identified subsystems on the vessels. These projects are expected to reach the contracting stage by 2020.

1.3.2 AIRBORNE SYSTEMS

Strategic Defence Acquisition Programmes

The airborne-related programmes under the Strategic Defence Acquisition Programme, comprise of the AgustaWestland A109 Light Utility Helicopters, the SAAB JAS 39 Gripen Advanced Light Fighter Aircraft, and the BAE Hawk 120 Lead-In Fighter Trainer Aircraft. Delivery of all aircraft at full contracted functionality, as well as delivery of ground support equipment and spares has been completed and these programmes are in the process of being formally closed.

Advanced Light Fighter Aircraft Gripen.

Although the Hawk 120 Lead-In Fighter Trainer aircraft was delivered to the South African Air Froce (SAAF) with full contracted functionality, work has been continuing with the integration of the A-Darter fifth generation Short Range Air-to-Air Missile on this aircraft, as well as with the provision of a Helmet Mounted Display capability for the aircraft. During the reporting period the focus was on executing risk reduction activities in preparation of contracting for the full-scale integration of the missile and the Helmet Mounted Capability in the aircraft.

Oryx Medium Transport Helicopter: Communications and Navigation System Upgrade

This project entails the upgrade of the Communications and Navigation Systems of the Oryx Medium Transport Helicopters of the SAAF. During the previous reporting period, the Military Airworthiness Board issued a Supplemental Type Certificate for the upgraded aircraft and Operational Test and Evaluation activities that have been concluded. At the end of the reporting period, all 39 aircrafts were upgraded as planned and delivered to the SAAF.

Oryx Medium Transport Helicopter.

Fifth Generation Short Range Air-to-Air Missile

This project entails the development of the A-Darter Short Range Air-to-Air Missile system for the SAAF and is co-funded by the Brazilian Air Force (FAB).

Full scale development work on the missile was concluded by the end of the 2015 calendar year, following a final series of developmental test flight campaigns in October 2015. At the end of the reporting period finalisation of the Critical Design Reviews of the complete missile system and all its subsystems as a precursor to final performance verification and qualification was in process. The next reporting period will see the completion of the development programme with the attainment of the Product Baseline (PBL).

A-Darter Air-to-Air Missile

Towards the latter part of the previous reporting period a contract was placed with industry for the industrialisation and subsequent production of missiles for the SAAF. Good progress was made during this reporting period in the preparation of manufacturing processes, and manufacturing of subsystems for the first batch of missiles is underway. Delivery of the first batch of missiles and initial logistic support capability is scheduled for the third quarter of the 2016 calendar year.

Armscor continued negotiations with BAE Systems (UK) regarding the integration of the A-Darter missile and a Helmet Mounted Display capability (HMC) onto the Hawk Mk120 Lead-In Fighter Trainer Aircraft of the SAAF, and continued with risk reduction work to reduce major integration risks in order to establish a sound technical baseline on which such an integration contract can be based. It is foreseen that a contract for the integration of the A-Darter missile onto the Hawk aircraft will be concluded during the first half of the 2016/17 financial year.

1.3.3 LANDWARD SYSTEMS

New-Generation Infantry Combat Vehicle

This project provides for a complete New Generation Infantry Combat Vehicle Products System (NGICV-PS) to replace the Ratel Infantry Combat Vehicle that has been in service since 1976. The project originally comprised of five combat variants including their logistic support and ammunition, but four new variants were added with the approval of the Acquisition Plan by the Armaments Acquisition Council (AAC) on 13 February 2013. The quantity of 238 combat vehicles was increased to 242 after approval to increase the advance payment from 12% to 20%. Twenty-one vehicle platforms were delivered by Patria Land and Armament from Finland, while the remaining vehicle platforms are produced locally by Denel Land Systems (DLS) and its subcontractors. The turrets and weapon systems are locally developed and manufactured by DLS as the prime contractor.

The section variant development was completed during the reporting period, paving the way for the start of the local industrialisation process. Denel PMP completed the delivery of all the 30mmx173 ammunition during the year. The first locally assembled section variant Pre-Production Model (PPM) will be completed by the end of the 2016/17 financial year.

The mortar variant design test and evaluation trials were completed and development will be finalised by mid-2017. Delivery of the 60mm mortar ammunition was completed during the reporting period.

New-Generation Infantry Combat Vehicle

The missile variant development will be completed during the 2016/17 financial year and industrialisation of an insensitive munition complaint missile for use on the missile variant will commence. The missile is planned to be ready for operational use by 2018/19.

The internal layout of the ambulance variant PPM was evaluated by the user during March 2016 and the preliminary operational test and evaluation will be finalised during the 2016/17 financial year. During this period the detail design of the signal variant will also be completed. The concept design of the artillery variants will be done in the 2017/18 financial year due to a delay in availability of the artillery observation equipment.

The transfer of technology milestones is progressing on schedule to ensure that local industrialisation and production of the platforms happens seamlessly. The welding of the first hull in South Africa was completed as part of the transfer of technological process. Initial training of artisans in the assembly process was completed in Finland during October 2015. Final training in the assembly process will take place during the local assembly of the first three section variant PPMs at Denel Vehicle Systems.

Major progress was made during the past year with the completion of the development of the section variant and major technical challenges were mitigated. There is an initial delay of nine to twelve months in the delivery of the four section variant PPMs and up to four months for the delivery of the PPMs of the other combat variants. However, it is anticipated that production will be on schedule by June 2018 with the completion of the production run of the first 45 section variants for the first battalion.

Ground Based Air Defence System for the SA Army

The first phase of the Ground Based Air Defence System (GBADS) programme, namely; Local Warning Segment (LWS), was successfully completed and delivered to the SA Army Air Defence Artillery Formation. The system is operationally supported and utilised by the SA Army for force preparation activities.

Artillery Target Engagement System (ATES)

Phase two of the GBADS programme comprises two steps of which the first step entails the upgrade of the Gun Fire Control System (GFCS) of the 35mm Anti-Aircraft guns currently in service with the South African Army Air Defence Artillery Formation. This upgrade will provide a radar-guided autonomous gun fire capability to the 35mm guns, which will significantly enhance the operational capability of these assets. During the reporting period, eight guns (MK 5A and MK 7) were locally upgraded and accepted, of which two Sensor Units and two Gun Fire Control Posts were delivered and integrated with the two gun variants. The System Test Bench and Periscope Test Bench were also upgraded and a new System Test and Control Processor has been procured, delivered and put to work. A gun Engagement Trainer System (Networked) and a Fire Control Simulator Trainer were also procured, delivered, and utilised. Very successful System Acceptance Tests were conducted in March 2016 at Alkantpan, where one complete GFU, with both gun configurations and ammunitions, destroyed all aerial test targets during live firing. Very good progress has been made towards the delivery of five Autonomous Gun Fire Units by the end of 2018.

1.3.4 COMMON WEAPON SYSTEMS

New Generation Tactical Communication System

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

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

New Generation Tactical System

Development and industrialisation of the four major subsystems - HF (High Frequency) Radio system, the V/UHF (Very/Ultra High Frequency) radio system, IPCS (Intra Platform Communication System) and the SRCS (Short Range Communication) progressed to the extent that all the manufacturing baselines have been established. Contracts for tactical communication management system was placed and the two most critical building blocks of the management system was completed. Initial production orders have been placed and the first batch of equipment was delivered.

1.3.5 DEFENCE INDUSTRIAL PARTICIPATION

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

Armscor is currently managing 13 existing DIP agreements, resulting from capital acquisition projects, a single obligation that stems from the SDPs, and one DIP agreement, resulting from the procurement of pistols on behalf of the SAPS.

The only remaining SDP related DIP obligation is an obligation incurred by MBDA for the acquisition of the Exocet surface-to-surface missile for deployment on the Frigates of the SA Navy. Negotiations have started between Armscor and MBDA to investigate alternative projects, involving local companies to discharge the outstanding obligation. The DIP Agreement will thus be extended until March 2019 in order to give Armscor and MBDA an opportunity to identify suitable projects.

Proactive DIP credits, which are banked for future use by foreign companies, remain the largest indicator of benefit accruing to the Defence Industry. An updated DIP Policy (POL-6000) Issue 6, was approved on 28 October 2015 and, amongst others, the mechanism to proactively bank DIP credits for future use was reinstated after it had been terminated in 2014. Foreign companies can thus now enter into Pro-active DIP agreements with Armscor.

In 2008 Armscor contracted Pilatus Aircraft Ltd of Switzerland for the upgrade of the avionics suite of SAAF's Pilatus Astra PC7 training aircraft. Pursuant to this contract, Pilatus incurred a DIP obligation of R154m which was to be discharged by December 2015.

Through transferring certain technical capabilities, Pilatus enabled local companies to participate directly in the SAAF aircrafts' upgrades and, in addition, to export components and services to other foreign customers. In November 2015, the final DIP credits were approved by Armscor, thereby bringing the discharge of the DIP obligation to its conclusion within the contractual obligation period.

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

Portfolio	Number of current contracts	Number of completed contracts	Total obligation (Rm)	Credits passed during current financial year (Rm)	Total credits passed to date (Rm)	Outstanding obligation (Rm)
SDPs	1	7	15 111	0	14 178	933
Active (SDA)	13	30	7 076	104	6 767	933
Police contracts	1	3	184	0	151	33
Total	**15**	**40**	**22 371**	**104**	**21 096**	**1 275**
Pro-active*	10	39	n/a	-1 444	2 024	n/a

Note: The negative value relates to transfer of pro-active credits to active agreements, as well as credits expired since the termination of pro-active agreements.

Status of DIP obligations relating to the Strategic Defence Packages as at 31 March 2016

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

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

1.3.6 DEFENCE MATÉRIEL DISPOSAL

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

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

During the reporting period Armscor continued with its Sales and Sales Support Improvement Plan and this initiative has resulted in a more efficient and professional delivery of its alienation and disposal service to the Department of Defence to the extent that new contracts to the value of R41,2m were concluded. The sales improvement initiative has also enabled Armscor to explore new initiatives, such as support to the Military Veterans, in line with Armscor's strategic objectives.

During the reporting period Armscor sold surplus and redundant DOD stock like military vehicles and related spare parts, aircraft and related spare parts, naval spares and other defence matériel to the South African Defence Related Industry. A number of African countries have shown interest in acquiring surplus SANDF equipment which is expected to bode well for future sales. The moratorium instituted by the DOD on the sale of Samil type vehicles has and will however continue to impact negatively on future sales and consequent revenue generation by Armscor.

2. RESEARCH AND DEVELOPMENT

The Research and Development (R&D) function ensures that the strategic capabilities and facilities under its control continue to grow and deliver defence operational and scientific research, test and evaluation services and technology management, analysis and innovation management services in accordance with the mandate and corporate goals of Armscor.

In order to arrest the losses in critical capabilities and capacity within the R&D divisions, potential business partnering was explored and will further be explored under the Armscor Turnaround Strategy to ensure sustainability and effective management of these strategic and sovereign capabilities. R&D managed to earn 30,2% of the total business portfolio of R457,0m from commercial contracts and 60,5% from the Department of Defence. The Alkantpan and Gerotek Test Ranges, as well as Hazmat Protective Systems mainly contribute to the local and foreign commercial income.

Although R&D still faces the challenge of insufficient funding to ensure the effective execution of its mandate, the exploitation of royalties and commercial opportunities created by research and development activities contribute to long-term financial sustainability.

The department consists of various divisions and business entities that focus on the following three functional areas:

- Technology Management, Analysis and Innovation
- Test and Evaluation Services
- Operational and Scientific Research

2.1 TECHNOLOGY MANAGEMENT, ANALYSIS AND INNOVATION

These divisions perform an independent, centralised coordination and management role for technology acquisition, intellectual property management and technology commercialisation.

2.1.1 MANAGEMENT OF TECHNOLOGY DEVELOPMENT PROGRAMMES

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

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

The technology funding of R590m for these programmes was distributed as follows:

- Armscor Research and Development Institutes: 16,0%
- CSIR: 27,4%
- South African Defence Industries: 54,0%
- Universities: 2,6%

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

- The technology development objective for guided weapons will develop an All Weather Air Defence Missile (AWADM) demonstrator to expand and prove the technology capabilities in areas such as radar seekers, missile navigation systems, fusing, warheads, flight control, and propulsion systems, integrated through a sound systems engineering process. A highlight was the first successful ballistic firing of the AWADM demonstrator in September 2015.
- The radar technology development programme includes research into improved target detection, tracking and classification. Previously radars were developed for specific requirements, like tracking or early warning detection. Dual band radar combines these requirements. A technology demonstrator which is field deployable has been successfully created and tested. This technology is ready to be transferred into production.
- The internet creates new approaches to share information, collaborative planning across remote sites and potential for improved situational awareness. A web-based application was constructed to demonstrate how these technologies can improve the SANDF's effectiveness. The application was successfully piloted in field exercises.
- A mission control training simulator was developed as a technology demonstrator. It is used for training of Hawk and Gripen fighters and mission controllers, allowing the user to specify functional requirements which will ensure that the formal acquisition delivers what is required. This has been evaluated by the South African Air Force (SAAF).
- During the reporting period the Institute for Maritime Technology (IMT) participated in the First European South African Transmission Experiment (FESTER), which involved collaboration between South Africa, the Netherlands, Germany, and later Norway. This series of experiments in the field of electro-optics specifically dealing in infrared and the effects of the atmosphere on the variety of electro-optics sensors was conducted at the IMT facilities in Simon's Town. The experiments were deemed a great success and the collaboration between all the parties involved was very good.

First European South African Transmission Experiment (FESTER)

- An active off-board decoy to steer a missile away from its target was developed over a number of years. This concept was finally succesfully proven at sea on a frigate during the latter half of 2015. The concept is to launch the decoy when an incoming missile is detected. The decoy transmits a radio frequency signal which the missile will hone onto and the decoy will move away from the ship when launched and in so doing steer the missile away from the ship. This concept has been proven to be successful.

Electro Optical Tracker

- Over the years funding has been invested into new technology for the replacement of the obsolete Electric Optical Tracker. The new system consists of a Radar Tracker and an Electro Optical Tracker combined into one system. The system was piloted for an extended period of time and is now an advanced technology demonstrator for potential future use.
- Research into body armour is necessary to protect soldiers against continuously improving threats. A body armour system can now be delivered with a mass saving on the current system, whilst also providing protection against not only handgun bullets but fragments as well. The new locally developed and manufactured hard armour inserts, in conjunction with the new soft armour, can now provide improved protection against rifle fire.
- The strategic intent for the scientific research and capacity building programme is to create new scientific and engineering knowledge, which is non-sensitive but relevant to the military. The programme is implemented by funding South African students at the postgraduate, undergraduate and artisan levels. At the postgraduate level, research is directed towards solving complex problems faced by the SANDF and the defence industry, while the undergraduate and artisan levels are geared towards building science and engineering capacity. It simultaneously has a wider impact on linked national key objectives like education, economic development, business and job creation.

2.1.2 INNOVATION DIVISION

The Innovation division professionally manages intellectual property (IP) created or acquired during acquisition of defence matèriel or technology development projects, on behalf of the Department of Defence (DOD). IP management includes the following generic elements: identification of IP, IP recordal and protection, IP valuation, IP contract management, legislative compliance with IP laws, direct and/or indirect exploitation of IP.

The DOD has Sovereign and Strategic IP. Strategic IP may be exploited, however when exploiting Sovereign IP, due consideration is given to the sovereign subsystems in the specific technology and commercial equivalents of the Sovereign subsystem are created for the commercial market. All IP is exploited with the support of Armscor's Executive Committee, Armscor Board of Directors, Defence Intelligence, the User Environment and approved by the Secretary for Defence on behalf of the Minister of Defence.

In exploiting DOD-IP, Armscor partners with the private and public sectors which can find commercial application for DOD-IP. The South African Defence Industry, such as the CSIR and Denel, are some of the key stakeholders in the exploitation of DOD-IP. The DOD-IP is either directly exploited by these stakeholders or the stakeholders provide sublicenses to companies in various countries. Due care is taken to ensure that the national imperatives, such as technology localisation, are considered in the process.

Furthermore, in managing the IP, the Innovation division is responsible for assisting the DOD in preparing a Financial Asset Register for all Intangible Assets within Armscor in accordance with Treasury's Modified Cash Standard. The Register is audited annually by the Auditor-General. Armscor contributed significantly by aiding the DOD to obtain their first ever unqualified audit report for Intangible Assets for the 2014/15 financial year which was maintained during the 2015/16 financial year.

2.2 TEST AND EVALUATION FACILITIES

2.2.1 ALKANTPAN TEST RANGE

Alkantpan Test Range was established in 1987 as a strategic ballistic test range to service the DOD and local armament industry. Ballistic testing prior to Alkantpan establishment was conducted at various army units with no appropriate infrastructure to conduct tests safely. Alkantpan has developed into an all-purpose ballistic facility that is strategic to the DOD for conducting armaments testing in a centralised and customised manner for a variety of artillery pieces, as well as aircraft and naval weapon systems. Alkantpan is used by both local and international clients.

There has been a significant increase in the number of tests conducted during the 2015/16 financial year resulting in a 15% increase on planned sales. The foreign income generated forms 64% of the total sales of R81.8 million.

Diehl Defence BGT from Germany and Oto Melara from Italy jointly continued conducting 127mm and 155mm artillery tests of new generation guided munitions. Alkantpan concluded another two-year contract with Singapore Technology Kinetics Pte Ltd. (STK), which will

last until March 2018. STK has been conducting ballistic testing at Alkantpan for 23 years and is Alkantpan's major foreign client. Various tests were successfully conducted for STK during the year. Aggressive marketing into "new" types of tests has culminated in a request from STK to conduct Blast Trials for them. This is going to be the first time that Alkantpan conducts a blast trial of this magnitude. All indications from STK are that there are more of these types of tests planned for Alkantpan. In preparation for this test, Alkantpan sent an engineer to Germany to acquire special training to capture the required data, as this test requires very unique measurements. This will place Alkantpan in the forefront if the test is successful.

Ballistic Testing With Tracking Radar

Tests from the South African Industry conducted at Alkantpan also increased and it is envisaged that this trend will continue for the next year or two.

Alkantpan has acquired new equipment and upgraded one of its tracking radars to further its strategic capabilities. The upgraded tracking radar can now, over and above ballistic firings, also be used to track Unmanned Aerial Vehicles (UAV's) and other drones. These technology upgrades and acquisitions strengthen Alkantpan's strategic capabilities to support the DOD as part of its mandate. Alkantpan has also maintained and increased its capabilities on ballistic testing and evaluation.

Alkantpan's foreign clients, at times, export weapon systems to Alkantpan for conducting their tests. As these require storage during the testing period at Alkantpan, a new weapon store is under construction (to be completed in June 2016). Germany has requested storage facilities until 2020.

The co-existence of Alkantpan with Square Kilometre Array (SKA) is of great concern as scaling down of tests would not be beneficial to Alkantpan and its clients. This would definitely result in foreign clients seeking alternative test ranges that will accommodate their requirements holistically and throughout the year. The South African Defence Industry are also concerned as they are showing an increase in business which requires testing at short notice and this would certainly not be possible if tests have to be scaled down due to SKA activities.

2.2.2 GEROTEK TEST FACILITIES

The primary focus of Gerotek Test Facilities is to support the acquisition processes of Armscor and the DOD in terms of test and evaluation of defence related products and systems, as well as to maintain key facilities, equipment, capabilities and technologies. The secondary objective is to leverage capabilities and available capacity for commercial business in order to complement funding required to sustain operations.

The following facilities are available for these purposes:

- the vehicle test range;
- test laboratories and conference centre at Elandsfontein, Pretoria West;
- the Electromagnetic Compatibility (EMC) test laboratory in Lyttelton, Centurion; and
- the National Antennae Test Range at Paardefontein.

Gerotek also, in addition to test and evaluation services, provides advanced driver training and corporate event services to Armscor, the South African National Defence Force and other Government institutions.

Gerotek Driver Training

The certification of Gerotek by the South African Bureau of Standards (SABS) to International Organisation for Standardisation (ISO) 14001 environmental standard and Occupational Health and Safety Advisory Services (OHSAS) 18001 health and safety standard was maintained. Gerotek also maintained and extended its scope of ISO17025 accreditation. Additionally Gerotek has obtained certification by Transport Education and Training Authority (TETA) and the South African Security Sector Education Training Authority (SASSETA) for training services, Federated Hospitality Association of South Africa (FEDHASA) and South African Music Rights Organisation (SAMRO) for the Sidibane restaurant as well as the Prescribed Fire Training Centre (PFTC) accreditation for the shooting range add to the competitive advantages of Gerotek.

The Gerotek facilities were used on numerous occasions by the local defence manufacturing industry to test military vehicles and components. Prominent clients were SAAB Grintek, Alaris, BAE Systems, Land Mobility Technologies (LMT), DCD Dorbyl, Paramount and Denel Land Systems. Commercial testing clients included Fiat (Italy), Ferrari (Italy), Tata (India), Mahindra (India), Volvo

(Sweden), Porsche (Germany), Idiada (Spain), BMW, Mercedes Benz, Ford, General Motors, Medav (Germany) and Iveco (Italy).

Vehicle Testing In Chamber - GEROTEK

Defensive, advanced and high performance driver training was conducted for the DOD, the South African Police Services, State Security Agency, Reserve Bank, SASOL and Tshwane Rapid Transport.

Major events for the year included another Volvo truck launch, the annual ONELOGIX truck driver competition, Ford launch, the annual South African guild of Motoring Journalists' Car of the Year competition, Tata Truck launch, Isuzu Truck launch, Toyota Hino launch, Renault SA dealer training, Daimler Chrysler fleet day and the Society of Automotive Engineers (SAE) Baja competition. Gerotek also hosted the Military Attaché Annual Conference and numerous international delegations, e.g. Indian High Delegation, Saudi Military Delegation, Department of Defence Human Resource division, Department of Defence Chaplains division and the Department of Defence Head Quarters.

As part of Gerotek's social investment programme, they supported corporate initiatives during Mandela day. A group of school pupils interested in engineering studies was hosted at Gerotek during the SAE Baja event entailing career advice and presentations from Armscor and industry.

2.3 OPERATIONAL AND SCIENTIFIC RESEARCH

2.3.1 ARMOUR DEVELOPMENT

The Armour Development division conducts continuous research and development to maintain and advance armour protection technologies and to establish industrial capability, to timeously satisfying armour protection requirements over the entire threat spectrum in a cost effective manner. This service includes analysis of the customer protection needs, development of armour, testing and qualification of vehicle hull ballistic resistance. The division has extensive experience in designing and fitting of armour packages on lightweight vehicles and main battle tanks.

The research work on armour protection systems, as contracted by the Defence Research and Development Board (DRDB), continued. Research on improved protection systems against warheads was concluded, including the testing of representative targets related to Navy ships to demonstrate possible solutions to RPG-7 attack. Further work was done on innovatively designed explosive reactive armour, with the focus on optimisation of the designs. The evolution of full-scale armour add-on packages to reduce collateral damage continued, and the results obtained were satisfactory.

Armour Development was contracted to evaluate body armour and to offer solutions to the SANDF for the improvement thereof. In addition, the testing of new generation transparent ceramics was witnessed; this solution offers one quarter the weight for ballistic protection compared to armour glass protection systems. The transparent ceramics have been procured for further development and testing. Focus is maintained on the weight reduction of armour packages with adequate protection and on research into materials for improved armour performance.

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

2.3.2 PROTECHNIK LABORATORIES

Protechnik Laboratories is a multidisciplinary laboratory facility with the primary focus on Chemical and Biological (CB) Defence Research and Development. The institution specialises in protection of personnel in chemically hazardous environments (respiratory, body and collective protection); detection and identification of trace amounts of hazardous chemicals; decontamination/detoxification of hazardous chemicals; synthesis of test compounds and chemical verification standards in support of commitments to the Chemical Weapons Convention (CWC). The institution also conducts biomedical studies focussing on characterization and identification techniques for Biological Warfare Agents.

As is customary, the project delivery process culminated in a stakeholder engagement workshop where scientists presented the highlights of their 2015/2016 projects and milestones to the CB Advisor to the Surgeon General. The purpose of the workshop was to pave the way for a review and prioritisation of certain research areas in the short to medium term.

Protechnik embarked on a project aimed at the design and development of in-house decontaminants that combine both the hydrolysis and oxidation destruction mechanisms through the incorporation of microemulsion technology.

The Liquid Decontaminant Mixing Station (LDMS)

Using this technology, two formulations have been successfully developed and challenged against known chemical and biological agents, using a NATO-approved commercial decontaminant as a benchmark. The in-house designed decontaminants performed at a par against the benchmark, under controlled laboratory conditions, and paved the way towards optimising the formulations and embarking on preparations for field trials. These preparations included the construction and installation of an in-house Liquid Decontaminant Mixing Station (LDMS).

The LDMS will help Protechnik to develop an in-house capability to manufacture, on a large scale, decontamination solutions for vehicles, non-sensitive equipment, terrain and personnel. It is hoped that this development would significantly eliminate total reliance on imported decontaminants, such as the currently used systems from Italy. Moreover, the development has the potential to bring revenue spin-offs through collaboration and supply of decontaminants to emergency services and other commercial clients. The field evaluations of the newly developed decontaminants are scheduled for October 2016.

Protechnik submitted topics for information exchange under the Master Agreement signed between the Defence Departments of South Africa and the United States of America (USA), which initiated collaboration between Protechnik and the Edgewood Chemical Biological Center (ECBC). This will culminate in the signing of the individual Exchange Information Annexure (EIA) between Protechnik and ECBC.

A senior scientist from the Detection and Warning Domain visited Spiez Laboratories in Switzerland as part of collaboration and hands-on training in the area of chemical warfare agent (CWA) detection using various technologies. These technologies include colorimetric chemical detection, Fourier Transform Infrared/Raman chemical detection and the application of Ion Mobility Spectroscopy (IMS) technology for the analysis of gas or vapour samples. In addition, the training included a detailed operational study of the Spiez developed CWA vapour generation system; verification of the generated vapour using gas chromatography-mass spectrometric techniques. This technology has since been installed and commissioned at Protechnik Laboratories.

The Protechnik Protection Domain initiated collaboration with the Nuclear Energy Corporation of South Africa (NECSA). Originally, military respiratory filters only gave protection against chemical and biological substances, but recently a number of respiratory filter manufacturers have started to supply Chemical Biological Radiological Nuclear (CBRN) filters which provide protection against chemical, biological and radiological substances. Since Protechnik does not have the capability to perform radioactive vapour protection tests, collaboration was initiated with NECSA to address this problem. A test method to test filters against radioactive vapour (methyl iodide) was developed.

The Biomedical Domain has continued to satisfy the client primarily through research directly funded by the South African Military Health Services (SAMHS). An article describing the behaviour of the anti-retroviral drug, Nevirapine, during wastewater disinfection - has been submitted for publication in an international journal, and is currently under review. This type of academic work serves as a test-bench for the optimisation of methods to detect and characterise trace amounts of chemicals in the environment (such as those released from chemical weapons). In the course of this work, a number of interesting compounds were created and identified and may prove to have therapeutic uses in the future. This shows that what is initially deemed as pure academic research may yield unexpected commercial potential.

Protechnik single-handedly and successfully hosted the Analytical Chemistry Course for African States Parties that are signatories to the CWC. For the past six years the course had been offered at Protechnik in collaboration with the Finnish Institute for Verification of Chemical Weapons. This is a three year contract (2015/2016 to 2017/2018) with the OPCW to offer a two week course in Analytical Chemistry to African Member States to the CWC. The objectives of the course are to facilitate analysis of chemicals related to the implementation of the CWC, and therefore enhance national capacities of the Member States and also to facilitate the adoption of good laboratory practices and broaden the pool of manpower from which National Authorities can draw in the future.

With the funding received from the Department of Trade and Industry, Protechnik purchased a Gas Chromatography-Atomic Emission Detector (GC-AED) to support the work performed for non-proliferation

activities. As most chemical warfare agents contain one or more of the following elements like sulphur; nitrogen; chlorine; fluorine; arsenic or phosphorous, it is possible with the GC-AED (refer to Figure below) to determine these elements simultaneously. This technique will be useful particularly in Proficiency Tests, where there is pressure to obtain results within a very short time, and it will assist Protechnik to improve the OPCW Proficiency Test results.

Gas Chromatography-Atomic Emission Detector (GC-AED)

2.3.3 ERGONOMICS TECHNOLOGIES (ERGOTECH)

ERGOTECH is responsible for the integration of ergonomics within the military systems of the SANDF. This objective is accomplished by providing military ergonomics research, design and specification of human-machine interfaces and ergonomics evaluation and testing services to the DOD and SA Defence Industry.

ERGOTECH'S scientific research portfolio, as mandated, included military ergonomic studies for the Defence Research and Development Board and for the South African Military Health Service (SAMHS). The ergonomics areas that were covered included scan anthropometry of soldiers, biomechanics modelling and reactive force measurement and real time monitoring of human physiological exertion parameters during soldier task performance. Work was conducted on cognitive ergonomics and functional performance with the focus on soldier performance enhancement. One area of interest was the determination of the efficacy of reflector sights on night time shooting performance.

Research work was expanded on human-computer interaction utilising gesture control in combination with voice as control modality for operating military equipment. Decision making model concepts using engineering psychology theory was applied in-field to extract real life military command and control decision factors. These elements will be used to populate models of military decision making to better understand the processes and linkages to other engineering psychology constructs, particularly situation awareness.

For the test and evaluation portfolio, evaluation services on workspace and dimensional aspects, noise and vibration characteristics and safety considerations were conducted for the new generation infantry combat vehicle project. ERGOTECH was again involved in the selection of South African Air Force flight crew incumbents.

A number of smaller project evaluations were conducted for commercial clients and other research and evaluation institutes within Armscor.

2.3.4 HAZMAT PROTECTIVE SYSTEMS

Hazmat's core business is the manufacturing of high quality respiratory filters for commercial (industrial) and governmental (Military, Police and Correctional Service) clients. The Hazmat brand is well established in the commercial market and Hazmat is considered a major manufacturer and supplier of quality respiratory equipment in the South African safety industry.

Hazmat maintained its strategic activated carbon impregnation capability to ensure quality carbons (primary adsorption material used in respiratory protection devices) are available for the manufacturing of various types of respirator filter cartridge and canister products. This includes the capability to impregnate special military carbons should the SANDF have to procure and/or replace military filters.

Hazmat allocated additional capital funds to conclude the process of upgrading the filter canister manufacturing (assembly line) which will allow Hazmat to stay on the forefront of technology and to supply clients with military and commercial products that exceed expectations and quality standards.

Design and development of the new automated filter sealing machine was successfully completed. This new centrifugal filter sealing capability is a significant technological improvement and will not only increase Hazmat's manufacturing capability but also ensure much lower reject rates and improve the quality of thier products. This is a much needed requirement for military filters to provide protection against biological agents.

All Hazmat's income for the review period was derived from commercial business, however it must be noted that some of the commercial clients/distributors include Hazmat products in the solutions they supply to the South African Police Service (SAPS) and the Namibian Police. Hazmat managed to exceed budgeted sales by 30%, despite the current economic climate and decline in the mining industry (a big client sector for Hazmat's products). Hazmat is therefore a self-sufficient entity that can serve the strategic needs of the DOD and its commercial clients.

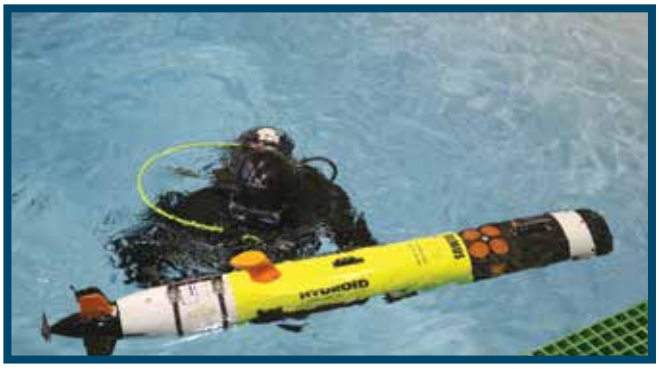
2.3.5 INSTITUTE FOR MARITIME TECHNOLOGY (IMT)

The Institute for Maritime Technology (IMT) is mandated to develop and maintain a sustainable capability for providing techno-military expertise to support naval decision-making in specific key naval expertise domains. IMT specialises in defence research, development, testing and evaluation of maritime systems, with 93% of the total sales of R89,3m funded by the DOD. Commercial sales make up the remainder of the revenues.

The IMT research and test activities include the following:

- IMT's Underwater Security Domain, supported by the Environmental Characterisation Domain,

performed an important role in the SA Navy's Mine Countermeasures Experiment held in Simon's Town in early October 2015. The main contribution was to operate the REMUS autonomous underwater vehicle (AUV) to perform comparative surveys to the SA Navy's own survey systems. Additional assistance was provided through deployment of underwater acoustic targets, data processing and management, as well as providing Maritime Rapid Environmental Assessment (MREA) information.



IMT-Autonomous Underwater Vehicle

- The FESTER, was a joint international experiment between the Institute for Maritime Technology (IMT) in Simon's Town and the defence research institutes TNO (Netherlands Organisation for Applied Scientific Research) and Fraunhofer IOSB (Germany Fraunhofer Institute of Optronics, System Technologies and Image Exploitation). The main objective of FESTER was the validation of electro-optic sensor performance and infrared signature simulation (software) codes. The measurement strategy for FESTER involved a continuous monitoring effort and intense observation periods (IOPs) where additional sensors were deployed to specifically measure infrared signatures and additional environment characterisation above and below water. The whole FESTER experiment has been a highlight itself especially with participation by some of the leading European defence research institutes.
- IMT and its contractors conducted sea trials of the Off-board Active Decoy (OAD) concept demonstration model by flying off the SAS AMATOLA and attempting to decoy advanced tracking radar which was locked on to the vessel. The trial was a great success as the radar successfully decoyed to follow the flight of the OAD. This was a realistic simulation of an anti-ship missile homing onto the frigate. In this case, the missile would have successfully been pulled away from the ship and it would have attacked the drone. This is a major achievement as the final proof of concept after a multi-year technology development programme managed by IMT to support the development of an advanced, specialised autonomous Unmanned Aerial Vehicle carrying sophisticated locally developed Radio Frequency (RF) countermeasure equipment.
- IMT assisted the SA Navy with their underwater security responsibilities for the Armed Forces Day in Port Elizabeth. IMT's REMUS autonomous underwater vehicle (AUV) was deployed for a survey and IMT personnel assisted with data processing and management, as well as providing Maritime Rapid Environmental Assessment (MREA) information. This project provided operational support in the form of a SA Navy exercise.
- Two expendable acoustic torpedo targets were manufactured by IMT to act as acoustic target emulators for a planned Combat Torpedo Firing. This target is suspended from the target vessel in order to attract the torpedo. The target was evaluated during a torpedo run excercise and performed very well. The torpedo detected the target immediately after launch and performed seven successful attacks on the target. The targets will be used in a combat firing in 2016.
- The Ultrasonic Broken Rail Detector (UBRD), developed by IMT was installed on Transnet's iron-ore railway line in 2014. Reports from Transnet indicate that, since installation, the UBRD system has reported at least six broken rail incidents, which probably would have resulted in derailment of the three to four kilometre-long trains loaded with iron-ore, amounting to hundreds of millions of rands.
- The development of a new version UBRD is nearing completion and will be market-ready in 2017. This version will consist of various enhanced features, one of which will be the extended range of broken rail coverage between UBRD stations.

2.3.6 DEFENCE DECISION SUPPORT INSTITUTE (DDSI)

The strategic intent of DDSI is to support the DOD in terms of the provision of solutions, advice, options and specialist support through research and analysis, engineering support, as well as specific specialist support services as required by the DOD. Support includes decision support, operational research, defence analysis, capability analysis, systems engineering analysis and products system management support to defence practitioners in the DOD.

DDSI provided specific value-adding services to high level decision makers of the DOD, including a functional analysis for the Ministry that concluded with the adoption of an output-focussed approach with an associated structure. Its involvement in the Turnaround Strategic Initiative for the Department of Military Veterans led to the development and facilitation of focussed work streams. DDSI members are an integral part of the permanent Defence Secretariat planning team, and actively support the military Defence Review implementation team. Support was also provided with the development of the Military Strategy, and DDSI facilitates and participates in the development of the future Force Design options for the SANDF.

DDSI provided specialist support services in the specialist roles of Systems and Logistics Engineering, Configuration and Data Management, Configuration and Data Administration and Operating Data Analysis for all projects in the Directorate Army Products System Management. While most of the work is performed in the

SA Army Portfolio for projects in the Operational phase, a fair amount of support has been provided to projects in the Acquisition phase as well.

Systems which are being supported are as follows:

- Casper, Mamba, Samil, Technical support vehicles
- Infantry weapons, Artillery, Air defence artillery
- Specialised infantry support
- Ratel, Rooikat and Badger vehicles support
- SA Army Uniform support
- Engineers formation support and Intelligence formation support
- Tactical signals products systems support
- Documentation management services and Systems management support.

2.3.7 FLAMENGRO (Fluid And Mechanical Engineering Group)

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

The following highlights are noteworthy for the period under review:

- The Weapon System Launch Response project resulted in the first prototype cradle bush for the G6 – 155 mm weapon, in the new leaf spring configuration, to be manufactured and statically tested at Denel Land Systems (DLS). This cradle bush promises to significantly mitigate the time taken for the response of the weapon to the reach the launch ballistics, and to significantly increase the accuracy of firing on the target. The cradle bush performed to specification, and Flamengro is currently optimising the manufacturing process and material selection for a dynamic test later in 2016.
- The Integrated Ballistic Simulation Capability project and the obsolescence management of the internal ballistics simulation platform was completed and integrated into a User Interface. In addition, the external ballistics simulation module is nearing completion and certification. The extension of the internal ballistics platform into OpenFOAM® is also nearing completion. Together these capabilities will provide Flamengro with a world-class capability in all aspects of ballistics. The software itself could also be exploited and marketed to customers outside the South African Defence community.
- The Extended Range Munition project is nearing demonstration of the technology demonstrator prototype in a static environment. The supersonic intake has been characterized across its entire operating envelope. Specialized tools were developed to calculate flow distortion at the intake exit. These tools are applied for the analysis of compressor flow stability during high-angle-of-attack maneuverers on the Hawk and Gripen aircraft. The aerospike nozzle which provides a 10% to 20% increase in range for a given missile system was successfully tested.

3. ARMSCOR DOCKYARD

The Dockyard is the SA Navy's maintenance repair authority responsible for the upkeep of the SA Navy fleet. The primary responsibility of the Dockyard is to execute planned maintenance, facilities upkeep and providing strategic support services including docking services, power supply, fuel support and other essential services to the SA Navy.

The current funding levels render the Armscor Dockyard unable to optimally maintain the SA Navy's product systems and effectively upkeep the Dockyard infrastructure.

The year under review continued to be marred with challenges of insufficient capacity, capabilities, and insufficient funding. The current manpower levels are well below the minimum capability level to ensure baseline support. The critical support requirements are in the technical domain and this is where the Dockyard has greatly lost both its capability and capacity. Employment of permanent labour has been impossible with the current funding, which resulted in the Dockyard relying on temporary fixed-term contracts to perform essential work. This was particularly felt in key functions like docking services and other site services, which poses its own risks of instability and continued support.

Despite the challenges of insufficient funding, the Dockyard has met its obligations of service delivery in accordance with the performance management agreement with the SA Navy. This has been achieved through both the use of the Dockyard's own resources and insourcing/outsourcing support from the industry. The challenge with the latter is that it brings erosion of capabilities and costs, and lost opportunities for knowledge and capability transfer.

There is a growing concern over the Dockyards lack of capability to perform the necessary fleet maintenance and refits to the SA Navy's modern frigates and submarines or indeed take on additional commercial work. As a result the Dockyard needs a major transformation programme which would include its people, processes, procedures and facilities to bring it up to the required standards.

The Council on Defence approved that the Armscor Dockyard be transferred to a new management/ business model whereby the SA Navy will have sovereign control, Armscor will become the Contracting Authority in accordance to its mandate, whilst Denel will manage and operate the capability. The parties recognise the need to make necessary infrastructural investment and develop a viable commercial model with a view to increasing the operational efficiency, rejuvenate capability and create viability for commercial endeavours in the Dockyard. In order to ensure that the Dockyard is able to meet the SA Navy's maintenance requirements, while contributing to the overall growth of the ocean economy in the Republic of South Africa, the parties are still engaging on the envisaged transfer and to date three draft agreements have been tabled and are awaiting final approval.

3.1 PROJECT HIGHLIGHTS

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

3.1.1 SUBMARINES

SAS CHARLOTTE MAXEKE (REFIT)

The refit for this submarine was planned to commence in April 2015. The project strategy is for the Dockyard to conduct the refit supported by the Original Equipment Manufacturer (OEM) when the funding becomes available.

The submarine has formally been handed over to the Dockyard to commence with the refit. The Dockyard has deployed a small team to this refit project to commence with strip-out phase (removing of the items, preserve and secure in store). The strip-out phase is progressing very well with the majority of stripping completed. The advantage of the strip-out phase will benefit the project from a time schedule perspective when the SA Navy confirms availability of funding for this project. The availability of funding and execution by the Dockyard will contribute towards the much needed capability rejuvenation plans. Limited submarine knowledge within the Dockyard remains a high risk.

3.1.2 FRIGATES

SAS MENDI (DOCKING AND ESSENTIAL DEFECTS)

The DED is slowly progressing. The project completion date had to be revised due to the funding challenges for the procurement of spares and material. Furthermore there were higher priority maintenance and repair requirements to other configuration vessels requested by the SA Navy for mission deployments. The starboard engine change was successfully completed by the Dockyard. Unscheduled docking requirements/tasking's to other configuration vessels also impacted on the planned completion date. The revised planned completion date is November 2016, funding dependable.

3.1.3 PATROL VESSELS

SAS MAKHANDA (DOCKING AND ESSENTIAL DEFECTS)

The DED was initially planned to be conducted within Simon's Town Dockyard commencing in September 2015. The SA Navy subsequently requested that the project be executed in Durban in support of their revitalisation strategy and conversion of the station to a Naval Base. The project had to be re-planned to be executed in Naval

Base Durban (NBD), taking into consideration associated costing/logistic implications. The integrated project plan (IPP) has been completed and is under consideration for approval by the SA Navy. Start date for the project is dependent on approval of the IPP and subject to funding availability.

3.1.4 TUGS

TUG INDLOVU (DOCKING AND ESSENTIAL DEFECTS)

This project commenced on 25 May 2015 and was completed on 31 July 2015. Numerous supplementary tasks were raised by the SA Navy during the project, which led to scope growth contrary to the initial statement of work. The additional tasks were scoped and a revised project completion date was approved by the SA Navy. The planned project was successfully completed by the Dockyard within time, cost and performance goals.

3.1.5 INDEPENDENT VESSELS

SAS DRAKENSBERG (REFIT)

The SAS Drakensberg is a Logistic Support vessel and is the largest vessel in the SA Navy fleet. The vessel was docked for a refit, of which the refurbishment of the on-board tanks was the bulk of the work. The refurbishment of the tanks was extremely important to prevent cross contamination of fluids due to the fact that the vessel transports fuel (petrol, diesel etc.) and fresh water for replenishing at sea. The first project plan was done by a visual survey and a revised Integrated Project Plan was done after blasting the tanks to bare metal. The planned completion date of 29 May 2015 was set and agreed by all stakeholders for the additional work and was successfully accomplished. This tight schedule was accomplished by working extended hours and meticulous project management.

Dockyard Workers on SAS DRAKENSBERG

SAS PROTEA (DOCKING AND ESSENTIAL DEFECTS)

The project commenced on 29 September 2014 with the planned termination date of 15 April 2016. The Dockyard attended to numerous supplementary tasks raised by the SA Navy during the project phase, which led to a scope growth contrary to the initial statement of work. This project was challenged significantly with obsolescence, and wear and tear due to the age of the vessel. Two generators and a main engine had to be replaced, as they had reached the end of thier lives. The new equipment was successfully installed, tested, and commissioned. Despite scope growth of greater than 40% and additional challenges the DED was completed on the planned termination date as per the mandate and Project Plan.

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

- SAS DRAKENSBERG Refit = 94.05%
- SAS PROTEA DED = 98%
- TUG INDLOVU DED = 100%

The project financial performance against approved financial authority budget was 98.65%.

3.2 INFRASTRUCTURE UPKEEP

The Dockyard's primary facilities and infrastructure have been in existence for over hundred years, since the creation of the Dockyard. The dry-dock, syncrolift and other equipment's are essential in the support of the required maintenance of the SA Navy fleet. The Dockyard facilities are in a serious state of decline. It is imperative that these strategic assets be maintained in operational conditions. Ongoing upkeep is being undertaken with the available funding to minimise the impact.

Significant financial injection is required, both in the immediate and long-term to ensure restoration and recapitalisation of the infrastructure which has suffered from unsustainable maintenance. The immediate requirement is to stop the wave of decline and address the restoration of the primary facilities, which include the dry-dock, syncrholift, and cranes, together with the integrally associated equipment.

4. SUPPORT FUNCTIONS

4.1 QUALITY

Armscor's Quality function follows a multi-dimensional approach to Quality Management, i.e. Corporate Quality, Product Quality, Tender Process Assurance and Safety, Health and Environment Management.

4.1.1 QUALITY MANAGEMENT SYSTEM

As a commitment to delivering professional and high quality services, Armscor has implemented a Quality Management System that is certified to the international standard for Quality Management, ISO 9001. Following a successful re-certification audit conducted by SABS in 2015, the Corporation maintained its certification to ISO 9001:2008.

The South African Bureau of Standard (SABS) recertified Dockyard on ISO/SANS 9001:2008 for a further three years which was a significant achievement.

4.1.2 TENDER PROCESS ASSURANCE

One of the controls put in place by the Corporation to mitigate risks associated with supply chain management is the tender process assurance service, provided by the Quality Department. Formulation of functional criteria has been identified as an area that needs improvement, and plans are already in place to address this situation.

4.1.3 PRODUCT QUALITY ASSURANCE

Product quality is assured by a team of quality Representatives for both SANDF and other organs of the state, like the SAPS. One of the important aspects of quality assurance are to monitor the suppliers' or contractors' performances on quality, and recommend necessary corrective actions. Only three of about 358 contractors that were assessed performed below the acceptable quality standard, mainly due to rejection of products/service presented for acceptance.

Third party quality assurance is provided to other governments (through) Government Quality Assurance (GQA) service at a fee. GQA not only contributes to income generation, but also helps the quality representatives to keep abreast with new international developments in the various domains. The knowledge gathered through this process is then applied to the improvement of service delivery to local clients.

The current GQA clients are the Netherlands and Germany, with whom Armscor has established a very good working relationship on products acquired from the South African Defence Industry.

4.1.4 SAFETY, HEALTH AND ENVIRONMENT (SHE)

The Corporation ensures that the employees work in a safe environment and that the activities of Armscor do not negatively affect the environment, thereby meeting the statutory and regulatory requirements for SHE.

The requirements of ISO SHE Management System have been successfully integrated into the existing management practices to reduce and prevent SHE-related risks. There were thus no significant or major safety, health or environmental incidents or accidents recorded in the 2015/2016 financial year. All other SHE-related non-compliances are closely monitored to ensure that they are adequately addressed.

At the Dockyard significant progress was made on the health front and objectives achieved. Specific focus during the year under review was placed on the occupational exposure evaluation in terms of hepatitis A and B. The study recommended a revised strategy for protecting employees against the risk of exposure to grey and black water systems during the course of their normal employment, which included baseline and periodic exposure audit.

Furthermore, a specific project was undertaken to address the findings and recommendations as per the Dockyard Painters Occupational Health Risk Assessment. This *inter alia* includes chemical safety and personal hygiene training to all painters, introduction of specialised equipment and upgrade of facilities.

Armscor has maintained certification against ISO 14001 (Environmental Management System) and OHSAS 18001 (Occupational Health and Safety Assessment Series for Safety and Health Management system) at its Gerotek site and strives to achieve the same at all other sites.

4.2 CORPORATE COMPLIANCE

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

The Corporate risk register is continuously reviewed to reflect not only progress on current risks but to further highlight the emerging risks of the Corporation. All departments have adopted risk mitigating action plans and are focused on alleviating the risks identified. Satisfactory progress was registered in the last quarter of the reporting period.

4.2.1 LEGAL SERVICES

LITIGATION

BEVERLY SECURITIES

Armscor proceeded to defend the claim of Beverly Securities in the Civil Court of Lisbon for an alleged non-payment of commission in respect of Oryx Helicopters of the SAAF during the late nineteen-eighties. The value of the claim is approximately €192m.

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

All possible witnesses have given evidence to the Commission, whereby such evidence shall now be considered by the Lisbon Court. The Court further instructed that the plaintiff should obtain a report of technical specialists of the parties, as well as a report from an impartial specialist on the operational capability of Oryx Helicopters. Upon finalisation of this action, the Court shall determine a court date for the matter to be heard.

NEW GENERATION ARMS MANAGEMENT (PTY) LTD (NGAM)

The recovery of the amount of approximately R6.1m from NGAM is still being pursued by Armscor. The amount is in respect of statutory cost paid by Armscor to SARS on behalf of NGAM.

Armscor obtained a default judgment against NGAM and while proceeding with the necessary execution steps, a notice of application for rescission of default judgement granted against NGAM was received by Armscor. In its application NGAM indicated that it was not aware of the legal proceedings brought against them by Armscor which resulted in the default judgement. Armscor has opposed the application and awaits a court date in due course.

COMSCIENCE (PTY) LTD

Armscor issued a multi-source tender for the purchase, installation, and commissioning of high-power HF Equipment. Comscience was the preferred bidder, however an order was placed for only the equipment. The order was successfully executed and the supply of equipment delivered. During March 2014, Comscience was requested to provide Armscor with a proposal for the installation and commissioning of the equipment. It failed to do so and accordingly Armscor cancelled the Request for Offer (RFO) in respect of the installation and commissioning.

Armscor then issued another RFO upon which Comscience approached the High Court on an urgent basis to request the setting aside of the RFO, pending the outcome of an inquiry to be established by Armscor. The matter was defended. The court issued a ruling to the effect that Comscience be reinstated in its original position. Consequently, the parties have agreed that consistent with the court order, Comscience will be reinstated in its original position. Armscor is complying with the terms of the court order accordingly and the matter was finalised.

STERADIAN CONSULTING (PTY) LTD

Steradian Consulting (Pty) Ltd instituted legal action against Armscor and claimed recovery of damages allegedly suffered as a result of loss of prospective profit in the amount of approximately R9 million. The plaintiff claims were as a result of the cancellation of two Requests for Proposals (RFP) issued by Armscor.

The trial date was set down for 5 May 2016. The parties in accordance with the request of the plaintiff postponed the matter indefinitely.

WERNER DE JAGER N.O. AND HOMBAKAZI NCEDIWE BULUBE N.O.

Armscor placed a number of orders on East Cape Field Service (Pty) Ltd (ECFS), for the maintenance and repair of SANDF vehicles. The company was subsequently liquidated. The liquidator, Werner de Jager *inter alia* demanded payment of invoices in respect of partial maintenance work allegedly completed, as well as certain monies paid by Armscor to SARS in accordance with a notice issued by SARS, in lieu of the amounts owed by the company to SARS.

The plaintiff had claimed from Armscor an amount paid to SARS, as well as interest. This matter was heard on 15 April 2015 and the court found in favour of Armscor on this issue. In respect of the partial maintenance work executed by the plaintiff, judgement was handed down in favour of the plaintiff. The amount was paid to the liquidator and the matter was finalised.

4.2.2 BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE)

Armscor supports Broad-Based Black Economic Empowerment (B-BBEE) which is a strategic initiative to transform the economy. A B-BBEE status of Level 2 was maintained in this reporting period with an improvement on Employment Equity and Skills Development elements. This level status will be retained until February 2017 which is the expiry date of Armscor's B-BBEE Verification Certificate.

Currently, Armscor is placing more emphasis on the Enterprise Supplier Development with special attention on the designated groups. A mention has to be made of Military Veterans a new designated group as introduced by the revised B-BBEE Codes of Good Practice. Armscor has established a dedicated programme for the support of Military Veterans through which various projects will be initiated targeted to address real needs of this group.

APPLICATION OF PPPFA

The Procurement Preference Policy Framework Act (PPPFA) remains a challenge in rolling out B-BBEE transformation by State Owned Entities. As previously reported, the Armscor Board of Directors considered and resolved to apply for partial exemption from application of the PPPFA, in order to put Armscor in a position to effectively facilitate transformation of the Defence Industry. Unfortunately, this application was not approved by the Minister of Finance. The Minister of Defence approved that the Defence Industry B-BBEE transformation must be guided and driven by its own transformation charter, under the auspices of the Codes of Good Practice. Armscor will facilitate the process of the development of a Defence Sector Transformation Charter in partnership with relevant stakeholders. The process will unfold in the next financial year.

BEE SPENDING REPORT

ACQUISITION

PROCUREMENT SPEND	B-BBEE SPEND	B-BBEE PROCUREMENT SPEND ON RECOGNITION LEVELS %	TARGET %
R5,999,358,290	R6,549,767,875	109.17%	50%

ENTERPRISE CLASSIFICATION	AMOUNT PAID	B-BBEE SPEND	B-BBEE %	TARGET %
Above R35m turnover	R2,495,743,665	R2,596,802,644	43,28%	-
QSEs	R543,664,859	R667,081,553	11.12%	-
EMEs	R26,619,051	R28,746,175	0.48%	-
Specialised above R35m	R2,713,861,955	R3,257,137,503	54.29%	-
Non-Compliant	R219,468,760			-
BOE >50%	R 73,993,450	R230,537,599	3.84%	-
BWOE >30%	R104,632,165	R54,904,141	0.92%	-
BOE >25%	R2,049,032,772	R800,135,177	13.34%	-
Foreign Suppliers	R1,240,074,673			

OPERATING BUDGET

PROCUREMENT SPEND	B-BBEE SPEND	B-BBEE PROCUREMENT SPEND ON RECOGNITION LEVELS %	TARGET %
R43,552,307	R46,428,108	106.60%	80.00%

ENTERPRISE CLASSIFICATION	AMOUNT PAID	B-BBEE SPEND	B-BBEE %	TARGET %
Above R35m turnover	R21,580,624	R26,279,425	60.34%	-
QSEs	R6,657,064	R8,453,894	19.41%	20%
EMEs	R7,115,010	R8,593,882	19.73%	20%
Specialised above R35m	R2,834,995	R3,100,907	7.12%	-
Non-Compliant	R0		-	-
BOE >50%	R13,714,959	R11,640,769	26.73%	25%
BWOE >30%	R6,228,225	R4,662,470	10.71%	25%
BOE >25%	R29,774,500	R16,535,748	37.97%	-
Unknown	R5,364,613			0

DOCKYARD

PROCUREMENT SPEND	B-BBEE SPEND	B-BBEE PROCUREMENT SPEND ON RECOGNITION LEVELS %	TARGET %
R31,948,263	R28,499,794	89.21%	65%

ENTERPRISE CLASSIFICATION	AMOUNT PAID	B-BBEE SPEND	BBBEE %	TARGET %
Above R35m turnover	R7,187,151	R8,007,570	25.06%	-
QSEs	R5,719,193	R7,462,316	23.36%	20%
EMEs	R10,807,237	R12,900,786	40.38%	15%
Specialised above R35m	R135,149	R165,120	0.52%	-
Non-Compliant	R7,985,628		0.00	-
BOE >50%	R16,523,005	R15,263,721	47.78%	15%
BWOE >30%	R9,487,277	R7,506,890	23.50%	15%
BOE >25%	R19,985,526	R16,216,454	50.76%	-
Unknown	R113,905			-

RESEARCH AND DEVELOPMENT

PROCUREMENT SPEND	B-BBEE SPEND	B-BBEE PROCUREMENT SPEND ON RECOGNITION LEVELS %	TARGET %
R138,800,826	R143,135,853	103.12%	65%

ENTERPRISE CLASSIFICATION	AMOUNT PAID	B-BBEE SPEND	B-BBEE %	TARGET %
Above R35m turnover	R28,505,316	R26,160,336	18.85%	-
QSEs	R13,962,272	R20,923,289	15.07%	15%
EMEs	R19,731,688	R21,485,694	15.48%	15%
Specialised above R35m	R54,765,037	R62,915,265	45.33%	-
Non-Compliant	R6,741,576		0.00%	-
BOE >50%	R15,014,926	R13,648,973	9.83%	15%
BWOE >30%	R4,137,076	R3,718,224	2.68%	15%
BOE >25%	R39,752,606	R22,172,766	15.97%	-
Foreign Suppliers	R3,408,397		0.00%	

Note: The above figures reflect the actual spending based on B-BBEE recognition levels up to 135%.

4.2.3 CONVENTIONAL ARMS CONTROL

Armscor is registered with the National Conventional Arms Control Committee (NCACC), as well as the South African Council of Non-Proliferation of Weapons of Mass Destruction (NPC). Armscor strives to ensure compliance in this area and provides support to its suppliers, especially Small Medium Micro Enterprises (SMMEs) with the relevant applicable legislation, regulatory and policy requirements, including international treaties.

During the period under review Armscor successfully operationalised the newly developed Arms Control and Asset Tracking System (ACATS). Following the successful implementation of the ACATS system performance of audits is more robust and continuous, while issues of non-compliance are identified and dealt with abruptly.

A policy process on management of firearms under the control of Armscor was approved for implementation. The extension of the ACATS system is being considered to host the firearms database with the functionality of issuing permits and tracking the items on the system. This will strengthen management of firearms efficiency.

4.3 HUMAN RESOURCES

The Human Resources function continues to provide a comprehensive human resource capacity to enhance the effectives of the organisation through its people. This is achieved by ensuring that competent and high-performing employees, who live the organisation's values, are attracted and retained so as to ensure that the organisation's mandate is fulfilled whilst offering rewarding careers.

To this end, a number of initiatives aimed at addressing the critical human capital challenges were identified and plans put into place. Satisfactory progress has been recorded in a number of areas that seek to address strategic human capital imperatives.

The necessary appropriate measures have been agreed upon and are currently being implemented in line with organisational objectives and obligations, in order to ensure that the entity remains competitive in the labour market environment.

4.3.1 STAFF COMPOSITION

The staff profile of Armscor, including Armscor Dockyard, as on 31 March 2016 per broad band, race, and gender, is indicated below.

STAFF PROFILE AS ON 31 MARCH 2016											
ARMSCOR, R & D AND DOCKYARD											
	AFRICAN		COLOURED		INDIAN		WHITE		TOTAL		GRAND TOTAL
BB	M	F	M	F	M	F	M	F	M	F	
EX	6	2	0	0	0	0	2	0	8	2	10
SU	16	13	2	0	2	1	21	2	41	16	57
MP	95	47	21	4	20	3	172	32	308	86	394
STS	77	93	34	12	6	9	36	63	153	177	330
AS	82	113	175	26	0	5	32	20	289	164	453
OS	49	34	47	7	1	0	1	0	98	41	139
TOTAL	325	302	279	49	29	18	264	117	897	486	1383

STAFF PROFILE AS ON 31 MARCH 2016											
ARMSCOR AND R&D EXCLUDING DOCKYARD											
	AFRICAN		COLOURED		INDIAN		WHITE		TOTAL		GRAND TOTAL
BB	M	F	M	F	M	F	M	F	M	F	
EX	6	2	0	0	0	0	2	0	8	2	10
SU	16	11	2	0	2	1	19	2	39	14	53
MP	89	46	16	4	20	3	171	32	296	85	381
STS	73	92	12	11	6	9	27	63	118	175	293
AS	53	96	22	17	0	4	4	18	79	135	214
OS	36	29	4	2	0	0	0	0	40	31	71
TOTAL	273	276	56	34	28	17	223	115	580	442	1022

4.3.2 EMPLOYMENT EQUITY

Armscor continues to drive transformation as part of its corporate objectives, through implementation of its Employment Equity Plan. The duration of the plan is 3 years from 1 April 2014 to 31 March 2017. The organisation has set targets that focused to improve its woman representation and persons with disabilities. Strategies are implemented to achieve the committed employment equity targets, including the comprehensive learning development plan; talent development programme and granting of bursaries that are intensified to speed up female inclusion in the technical categories.

As the organisation experienced difficulties with sourcing persons with disabilities and appointment of sufficient number of females in senior and technical positions; the efforts in closing the gaps in those areas have started showing progress especially in respect of persons with disabilities. The numbers of persons with disabilities have increased from 16 to 19 with the appointment of talent development candidates. Three candidates with disabilities were granted Armscor bursaries during 2016 academic year.

Monitoring and evaluation

The Employment Equity Committee (EEC) supported by the Executive Committee remains focused to ensure that comprehensive transformation takes place within the organisation. While quantitative targets are brought to spotlight during the monitoring and review meetings that took place on quarterly basis, the EEC pursued several initiatives that seek to advance internal empowerment process within Human Resources. The initiatives involved sensitising the organisation on matters of parity, made recommendations in the Human Resources Practices and ensuring that training and development interventions are seamless for all employees across the organisation sites.

WORKFORCE PROFILE PROGRESS 2015/2016

The employment equity targets on race representation for the year were achieved. The organisation remains focused on monitoring and evaluating the interventions that aim to advance designated groups and remain positive that the goal for the term of the plan will be surpassed especially with woman representation and people with disabilities. The year 2015/2016 was the second year of the 3 year term of the Employment Equity Plan and targets were achieved as follows:

- the target was set to increase black employees from 64% to 66% and 75% performance was achieved; and
- the target for females was set to increase from 33% to 34% and 34% performance was achieved.

The table below highlight progress for the year under review:

TABLE EE1

Male								
Occupational Levels	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top Management	6	3	0	1	0	0	2	1
Senior management	16	21	3	3	2	3	21	22
Professionally Qualified and Experienced Specialist and Mid Management level	97	100	35	27	20	20	182	202
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	109	121	173	159	6	8	66	72
Semi-skilled and discretionary decision making	93	90	162	99	1	2	12	14
Unskilled and defined decision making	41	41	17	11	0	0	0	1
TOTAL	362	376	390	300	29	33	283	312

TABLE EE2

Female								
Occupational Levels	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top Management	2	2	0	1	0	0	0	1
Senior management	13	16	0	3	1	1	2	3
Professionally Qualified and Experienced Specialist and Mid Management level	49	65	4	12	3	5	33	33
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	118	118	24	35	11	10	68	77
Semi-skilled and discretionary decision making	116	108	32	32	4	5	18	23
Unskilled and defined decision making	34	30	11	3	0	0	0	1
TOTAL	332	339	71	86	19	21	121	138

TABLE EE3

Persons with disabilities				
Occupational Levels	Male		Female	
	Current	Target	Current	Target
Top Management	0	0	0	0
Senior management	1	1	0	0
Professionally Qualified and Experienced Specialist and Mid Management level	5	5	0	2
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	6	4	5	6
Semi-skilled and discretionary decision making	0	3	1	1
Unskilled and defined decision making	1	0	0	0
TOTAL	13	13	6	9

4.3.3 EMPLOYEE SATISFACTION SURVEY

The first employee satisfaction survey was conducted in 2010 by an external provider. Since 2010, in-house Employee Satisfaction Surveys were conducted, in 2012, 2013, 2015 and 2016 respectively. In 2014, the Armscor Board of Directors commissioned the Employee Satisfaction Survey to be conducted by an external provider. The outcome of 2016 survey showed that the average satisfaction amongst employees improved from 61,76% in 2010 to 68,71% in 2016.

The following action plans have been implemented since 2010:

- Implementation of Management and Leadership Development Programmes.
- Review of the Succession Planning and the Performance Management Practices.

4.3.4 CAPABILITY RETENTION AND SUCCESSION PLANNING

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

As part of the capability retention and succession planning the following number of key positions (positions having a major impact on business sustainability) and successors (employees with potential who meet or succeed performance targets) were identified.

	Number of key positions	Number of successors
Quality	12	14
Corporate Compliance	1	1
Information Technology	5	5
Corp Fin & Infrastructure	5	4
Acquisition	21	37
Research & Development	35	41
Armscor Dockyard	2	2
TOTAL	81	104

As part of the implementation process executive and senior management were made accountable for the success of knowledge transfer and succession planning. To this end knowledge transfer and succession planning initiatives are added to the balance scorecards of all parties concerned and, as such, will influence their performance rating and remuneration.

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

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

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

The successor/mentee development programmes also include specialised training and as such partnerships were established with foreign countries and universities abroad to provide training on technologies that are not available in South Africa but are essential for business sustainability. Five employees are currently studying at the Naval Post-Graduated School in Monterey, California.

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

Promotion of successors

Promotion category	Number
Specialist positions	3
Middle Management positions	7
Senior Management positions	4
TOTAL	14

Readiness of successor 2015/2016

1 = 5 years or longer	9%
2 = 3-4 years	43%
3 = 1-2 years	38%
4 = ready now	11%

4.3.5 SKILLS DEVELOPMENT

The ongoing efforts in Armscor to drive skills and talent development remain the cornerstone of Human Resources. The greater focus is to develop and retain the skills of employees that lead to the achievement of the strategic and business objectives.

Embedded in the skills development sphere, are programmes that are aimed at developing management and leadership competence. This will be accomplished through international technical training programmes that address scarce skills shortages and create opportunities to design world class technologies. These programmes are bursary schemes and Talent Development Programme for graduates, Artisan and Apprenticeship programmes to acquire young talent and address the scarcity of technical skills, and Adult Education and Training Programme to promote a culture of learning in all occupational levels.

ARMSCOR MANAGEMENT AND LEADERSHIP PROGRAMMES

Armscor implemented programmes that include Executive Development Programme (EDP), Senior Management Development Programme, Management Advanced Programme (MAP), Management Development Programme (MDP) and New Managers Programme (NMP) in partnership with recognised Business Schools in South Africa, namely; University of Witwatersrand Business School (WBS), University of South Africa School of Business Leadership (UNISA-SBL) and University of Stellenbosch Business School (USB Business School).

This initiative aims to ensure continuous development of management and leadership competence which drives the strategic development activities in Armscor.

Forty two employees completed their programmes in the year under review as follows:

- 7 employees completed EDP.
- 4 employees completed MAP.
- 15 completed NMP.
- 12 employees completed MDP.
- 4 employees completed SMDP.

INTERNATIONAL TRAINING PROGRAMMES

Armscor prioritised areas of skills shortage and identified technologies that are not available in South Africa, as well as established partnerships with foreign countries and universities abroad.

There is currently five employees studying at the Naval Post-Graduate School in Monterey, California in the following fields of studies:

- Master Programme in Naval/Mechanical Engineering.
- Master Programme: Electronic Systems Engineering.
- Master Programme in Combat Systems Management.
- Master in business Administration in Acquisition and Contract Management.

ADULT EDUCATION AND TRAINING PROGRAMMES (AET)

Armscor endeavors to promote a culture of learning across all occupational levels in the organisation, and this necessarily include those employees who can benefit from AET Programme. The following AET learners were registered on AET programme during the period review:

- 18 employees in Armscor were registered on various AET levels.
- 36 employees were registered for Matric in Armscor including the Dockyard.
- 20 AET learners enrolled for English for Business course to enhance their English proficiency.

Since the inception of AET programmes in Armscor, more than fifty-five employees have received certificates for various AET levels. This initiative has improved the employee's self-image and empowered them in their day-to-day living.

TRAINING DEVELOPMENT PROGRAMME (TDP)

Talent Development Programme aims to empower the newly appointed graduates with opportunities to acquire skills by working on advanced technologies at Armscor and other innovative defence partners in the industry. Armscor has established partnership with its suppliers that drive learning and talent development initiatives. They provide the opportunities for candidates to be placed in various sites and workplaces of suppliers, such as Denel Dynamics, Denel Land Systems, Euro Copter, and RDM, for additional training. The ultimate goal is to skill and create early career opportunities within the defence industry.

Candidates are carefully selected and trained for a period of two years. The programme and training offered is aligned to the requirements of ECSA.

There were 30 graduates that were appointed on the Talent Development programme during the year under review. The programme comprises of 7 African males, 19 African females, 1 Indian male and one 1 White female pursuing opportunity in the disciplines of Science, Engineering and Information Communication Technology.

The Armscor Women Engineer/Technical Development Programme runs simultaneously with the Talent Development Programme. This programme is intended for women only and was established in line with Human Capital Strategy in response to the organisational transformational objectives.

BURSARIES

The Armscor bursary scheme is linked to its initiatives to build early career opportunities and capabilities. This initiative is significant for talent attraction and development of the critical and scarce skills pipeline. Armscor bursary scheme panel is responsible for the selection of the deserving students, and the gender balance is taken into consideration when making the selection.

There were 55 bursaries which were awarded to undergraduates at various local universities during the period of review. The bursaries are funded by the Armscor bursary scheme, Armscor Defence Industry Bursary Scheme (ADIBA) and the DOD Ledger Fund. Armscor intends to grow the number of bursary holders in the future.

Armscor has participated and honoured career exhibition

invitations from various local universities and institutions in the Western Cape, KwaZulu–Natal and Gauteng provinces during the year. Armscor intend to promote the careers opportunities within the military industry in all provinces in partnership with all and interested institutions to ensure development of the relevant and necessary skills.

UNIVERSITIES VISITED BY ARMSCOR FOR SOURCING OF BURSARY STUDENTS

Armscor actively promote career opportunities within Armscor and the defence industry. The initiative was accomplished by participating in open career fairs and expo's for various local universities.

Armscor visited universities and expos in the following provinces in the period under review:

- Gauteng (SABS Education Career Indaba).
- KwaZulu-Natal (University of KwaZulu-Natal and KwaZulu-Natal Public Service Careers Exhibition).
- Western Cape (Cape Peninsula University of Technology and Armscor Careers Day for Western Cape Schools).

4.3.6 DOCKYARD

This section identifies key activities undertaken by the Dockyard in relation to Human Resources matters during the 2015/2016 financial year. Particular, the following achievements have been realised in each of the following key areas:

ORGANISED LABOUR AND MANAGEMENT

Both organised labour and management continued to engage, sharing information and solving problems amicably, that affect employees in the Dockyard, during their monthly meetings which took place religiously throughout the year. An agreement on issues of mutual interests, effective from 1 April 2015, concluded on the 5 June 2015.

CAREER PATH FOR ARTISANS

Armscor considered creating a career paths for artisans at the Dockyard and a decision was made to classify artisans into three levels going forward. In May 2015, a service provider, Saville & Holdsworth Limited (SHL), was appointed to assist the company in evaluating all artisans that were in the system and provide objective data on their abilities and personality as to fit each to a level, as an input into the selection process.

Therefore, SHL assisted Armscor by:

- Profiling the three artisan levels;
- Assessing all artisans against the three profiles; and
- Producing a dashboard indicating the readiness of each artisan per level.

The whole project, in terms of process followed and criteria used, was shared with Organised Labour who endorsed it accordingly. The deliverables of the project were achieved and the results implemented with effective from 01 September 2015.

SA NAVY TRAINING SUPPORT

During the reporting period a total of 6 SA Navy students started and are continuing with their training of P1, P2 and basic electronics course at the training centre. Four students completed the P1 course and submitted their portfolios to their respective Universities in May 2015.

As part of its mandate, the Dockyard is required to provide technical training support to the South African Navy (SAN) as and when its required by SAN. The training centre provided and facilitated practical technical training to 31 SAN's Electrical Engineering students and two Mechanical Engineering students during this reporting period. These students were provided with practical in-service training, as well as on-the-job training to complete Practical 1 and Practical 2 modules as per their curriculum and requirements of their tertiary institutions. These modules include: soldering, basic welding, PLC, Use of Test Equipment, Light and Heavy Current, wiring electrical installation and practical workplace experience.

Additionally, the Dockyard is mandated to provide practical workplace experience to SAN's apprentices as and when required. In fulfilling this responsibility, the Technical Training Centre facilitated seven shipwright apprentices to complete on-the-job training in the heavy plate workshop. Some of the practical modules completed include structural plating and framing, structural fittings and non destructive testing. Two SAN's employees were placed in the main electrical workshop, in preparation for trade testing under recognition of prior learning.

In total, 40 SA Navy students received practical workplace experience in the Dockyard during 2015/2016 under following disciplines: electrical, mechanical and construction.

APPRENTICESHIPS

During the second quarter of 2015/2016 financial year, a total of 77 apprentices were appointed in the Dockyard. Of the 77 apprentices, 44 were Armscor's apprentices while the other 33 belonged to Department of Economic Development and Tourism (DEDAT). Of the 44 Armscor's apprentices, 6 are undergoing the Accelerated Artisan Programme for a maximum period of 18 months and the rest are undertaking the full-time programme which is limited to a minimum 24 months and maximum of 48 months.

SKILLS DEVELOPMENT SUMMARY

The table below demonstrates how the Dockyard has performed in relation to the skills development targets for 2015/2016.

Subject	Target	Actual	Comments
Apprentice Intake	50	77	44 Armscor & 33 SAOGA
Coaching and Mentoring	*	10	The training included Assessor and Moderator skills
Supervisory Training	20	27	The training included delegation, followership, employee relations, etc.
Management Development Programme	8	8	
Recognition of Prior Learning	*	9	Handymen trained and prepared to pass Trade Tests in various trades.

*No target set

MERSETA DISCRETIONARY GRANTS

The Manufacturing Engineering and Related Services Seta (MERSETA) awarded the Dockyard a discretionary grant to an amount of R1 672,200 for 12 learners within the apprenticeship programme. The agreement was signed and submitted on 22 January 2016.

ADULT EDUCATION AND TRAINING (AET)

The first step towards ensuring that employees are able to adapt to change and to add value within the workplace is to equip them with basic education, including basic reading and writing skills. Forty two employees were pre-assessed on their literacy in communication and numeracy skills. All the said learners were place in AET levels varying from level 1 to 4.

4.4. INFORMATION TECHNOLOGY

APPLICATIONS RENEWAL

A service provider for the Applications Renewal project was appointed and they accepted the offer in November 2015. The project is aimed at replacing Armscor's legacy systems with a single and integrated Enterprise Resource Planning (ERP) system.

To date the following has been achieved in the project:

- Project Kick-off conducted;
- Project Planning completed. Prioritisation of functions to be implemented has been completed with HR/ payroll and budget modules aimed for the first year of the project;
- Functional specifications for budget and forecasting tool have been completed; and
- Development started on the first modules of the budget and forecasting tool.

BUSINESS REGISTER

The internally developed Business Register has gone live and training was provided to the users. The current project phase has been closed and signed-off by the organisation. We are providing on-going support to ensure that that the system is stable.

DEFENCE MATÉRIEL DISPOSAL

The Sales and Marketing system for DMD was developed. The development of the following modules was completed: Administration, Stock Management, and Warehousing modules. The development of the sales module is still being finalised due to other requirements that came up from the users.

The following achievements have been realized in the project:

- Data migration development and execution from excel spreadsheets have been completed;
- System integration development for validation of ICNs has been completed;
- The standard reports for all modules were developed however management reports are still to be developed as they have to be defined; and
- The stock and warehouse related modules are live and needs to be extended to all users.

CIMS

Work towards the redevelopment of one of the modules has been stopped, as this will now form part of the new ERP system. All work that was done by the development team will now be input to the applications renewal exercise, using the iDempiere platform.

DATA LEAKAGE PREVENTION (DLP)

The product procurement was completed and the tender cancelled due to no appropriate solution being found. Various technologies are being considered to cover aspects of the requirement, such as rights management, mobile device encryption, etc.

The scope has been extended from procurement of a product that solves part of the problem to a more comprehensive approach for DLP.

Additional interventions include the following:

- penetration testing conducted to assess the level of success with internal security mechanisms confirmed;
- implemented various encryption tools, including mobile platforms;

- extended the scope of the security incidents response team to include events outside the Armscor environment; and
- started the architecture overhaul process to deal with identified vulnerabilities.

REVISED INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) STRATEGY

The ICT strategy was approved by the Armscor Board during the year under review. This inspection and revision was impelled by organisational changes that demanded that Armscor perform its mandate with a sense of urgency, while building financial and operational sustainability. The revised strategy realigns the already identified ICT objectives to the current corporate objectives. The strategy positions the ICT function to support Armscor in delivering services "on-time in-time, all the time" while adhering to and implementing government policy and cutting operational costs. It places emphasis on the following three areas: security, governance, and the implementation of an integrated platform for various enterprise systems.

KNOWLEDGE AND INFORMATION MANAGEMENT

The Knowledge Management (KM) programme was officially launched on 19 November 2015. The launch was endorsed by the Chief Executive Officer and various departments also participated. External organisations were invited and presented their companies' KM approach and strategies. Departmental Knowledge Management champions were nominated by General Managers for the purpose of supporting the central KM team in spreading the KM messages, acting as local departmental representatives for KM initiatives, and linking their departmental colleagues to knowledge and information resources outside their immediate context.

ENTERPRISE CONTENT MANAGEMENT (ECM)

The ECM project was completed during the year under review and was renamed 'ColabSpace'. The portal is the backbone of the Armscor Intranet and a central repository for storing documents and records, and sharing, collaboration, and supporting the KM initiatives. All departments and a couple of divisions within the Acquisition Department have gone live on the document centre for the system.

ENTERPRISE ARCHITECTURE

As part of the Enterprise Architecture (EA) deliverables, the process of developing an ERP Capacity Plan commenced through the installation of LibreNMS software, which is an auto-discovery network monitoring tool, supporting a range of network hardware and operating systems. This tool can be used in conjunction with other tools to continually manage the capacity of the IT Infrastructure. This is important in ensuring that IT can meet the demands of the organisation by estimating the storage, hardware, software, and infrastructure resources required in future. Achievements for EA include EA Change Management Plan, Organisational Model, Technology Architecture Baseline (phase1). Further achievements in EA was the capacitation of the EA unit with the appointment of the Business Architect and the Technology Architect.

The following documents/templates were developed to guide the service provider to guide the architectural design for the Application Renewal project, in the absence of an Architectural blueprint:

- Data Migration Framework;
- Detailed and conceptual design; and
- Business Requirement Specification.

OPERATIONS

The ICT production environment was fairly stable with an uptime of 99,5% in the server and network areas.

A partial renewal of ICT infrastructure was implemented in IMT, with a short term view of moving the Disaster Recovery Datacentre site from Telkom to IMT.

The core switches and the network redesign projects could not be implemented due to no-bid situations in the tendering processes.

The IT service desk procedure has been complied and is awaiting approval.

GOVERNANCE

Improvement ICT Governance and ICT Services Management: Implement Armscor corporate ICT governance charter:

- The IT Steering Committee, Architecture and Review Committee, Information and Projects Steering Committees have been set up and are functioning.
- The capacitation of the regional offices is being addressed through the ICT re-organisation process.
- The IT Service Management Practice has been developed.

RENEWABLE ENERGY

During the year under review, Armscor was investigating the possibility of procuring a hybrid-solution renewable energy system for its head office complex. This project has been prompted by the frequent spells of disruption in the supply of electricity (owing to load shedding by Eskom), incidents of cable theft, and electricity interruptions due to maintenance, all of which negatively impacts on Armscor's operations. Having a renewable energy system in place would ensure a consistent and uninterrupted supply of power so that Armscor, the DOD, the Ministry of Defence, and Defence Secretariat residing in the Armscor building are able to continue with their daily activities that are required to conduct its business.

4.5 MARKETING AND BUSINESS DEVELOPMENT

The Marketing and Business Development function is primarily responsible for stakeholder management, marketing of Armscor's products and services, as well as the defence industry capabilities.

Armscor endeavours to build, maintain, and strengthen relationships with all its stakeholders through different marketing communication and engagement platforms. This is aimed at creating awareness of Armscor's capabilities, as well as enhancing the organisation's image and reputation. Constant engagements with stakeholders seek to keep them abreast of developments in the organisation, while also engaging on matters affecting the organisation and the stakeholders involved.

TABLE 1: ARMSCOR STAKEHOLDERS

Table 1 is an illustration of how Armscor engages with its stakeholders.

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 • Governments / Departments / Institutions	• Timeous delivery of products and services • Value for money	• SLA • MoA • Direct customer engagement • Customer feedback and reports / presentations • Stakeholder satisfaction survey • Participation in industry forums and committees • Social Events
Employees: • Internal • Labour Unions	• Fair employment standards and remuneration • Career prospects • Communication	• Employment Equity Committee • Turnaround sustainability team • Reward and recognition • Training & skills development initiatives • Employee engagement sessions • Employee 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 briefing • Media responses

4.5.1 DEFENCE INDUSTRY SUPPORT

DENEL AEROSPACE MARITIME AND DEFENCE CONFERENCE

Armscor participated at the Denel Aerospace Maritime and Defence Conference, which took place on 1-2 October 2015. The objective of the conference was to provide a platform for global Original Equipment Manufacturers (OEMs) to create strategic partnerships with South African Companies on defence and commercial level, and also for them to understand the National Industrial Participation Programme (NIPP) and the Defence Industrial Participation Programme (DIPP).

Denel Aerospace Maritime And Defence Conference

DEFENCE EQUIPMENT AND PERSONNEL SUPPORT (DEPS)

Armscor facilitates, administers and manages the use of SANDF equipment, matériel, facilities and personnel by SADI in order to support the local defence industry in marketing its capabilities to local and international strategic clients. Armscor continued to process marketing and material aid requests pertaining to demonstrations, vehicle and other equipment tests and foreign delegation visits to SANDF. Although there was a decline, Armscor managed to generate R4,5m for the DOD. The amount generated depends on the type of loan-asset and period.

DEFENCE INTERNATIONAL RELATIONS

In order to build, maintain, and strengthen strategic relations with other countries, Armscor continues to provide an industrial ambassadorship service to the South African Defence Industry.

The annual Military Attachés and Advisory Corps (MAAC) engagement session was held on 10 March 2016. The event was attended by 47 attachés representing 24 countries.

The objectives of the session were to:

- promote Armscor's capabilities, the organisation, its products and services;
- communicate the organisations link to the Department of Defence and the South African Defence Industry (SADI);
- create a communication platform, to engage on a variety of interests / and issues and developments relating to Armscor and / or SADI, as well as developments in respective countries;
- build relations with new attachés / advisors while maintaining and strengthening relations with those who have been assigned to South Africa;
- re-confirm Armscor support to MAAC and their respective countries; and
- provide feedback on the previous year's deliberations and suggestions from the MAAC.

MAAC Engagement Session 2016

Armscor also participated in a series of stakeholder engagements with the MAAC where Armscor profiled its technology development, research, evaluation and testing capabilities.

MAAC visit at Alkantpan.

MAAC visit at Protechnik.

Armscor hosted various foreign delagations as part of the continuous efforts to effectively engaging and enhancing stakeholder relationships. A delegation from Spain was hosted and also a visit by the group from the Indian National Defence College to Gerotek Test Range, which formed part of their educational tour that was arranged by the South African National Defence College took place in the year under review.

Group from the Indian National Defence College at Gerotek.

Stakeholder Engagement - Delegation from Spain visiting Armscor.

DEFENCE SHOWS AND EXHIBITIONS

Among the marketing channels that Armscor uses to market itself and SADI, shows and exhibitions continue to be seen as one of the most effective marketing tools, in providing support to the SADI, to showcase its capabilities and assist with their marketing endeavours to both local and international markets.

An annual survey conducted within SADI to determine the local defence industry's interest to participate at international marketing- and local events was used to co-ordinate Armscor's support to SADI at the following exhibitions:

- LAAD 2015 held from 14-17 April 2015 in Brazil. IDEF 2015 Exhibition held from 5-8 May 2015(Turkey).
- IDEF 2015 held from 5-8 May 2015 Turkey.
- Land Forces Africa Conference and Exhibition held from 6-7 July 2015 in Tshwane.
- DSEi'15 held from 15-18 September 2015 in London, United Kingdom.
- Milipol Paris 2015 held from17-20 November 2015 in Paris, France.
- Forum on China-Africa Cooperation (FOCAC) 2015 held from 4-5 December 2015 at the Sandton Convention Centre. Both Heads of States of South Africa and China attended the exhibition.
- DEFEXPO India 2016 held from 27-31 March 2016 in Goa, India.

Land forces Africa conference 2015.

IDEF 2015.

IDEF 2015.

Armscor, as lead partner of AAD 2016, together with the DOD, Commercial Aviation Association of Southern Africa (CAASA) and the Aerospace, Maritime and Defence Industries look forward to host yet another successful AAD 2016 event which takes place from 14-18 September 2016.

4.5.2 STAKEHOLDER RELATIONS MATTERS

COMMUNITIES

Armscor is committed to making a difference in the future of the needier communities by allocating some of its resources to improving the socio-economic conditions of these communities, in line with the Corporate Social Investment (CSI) Strategy.

As a socially responsible organisation, Armscor continues to invest in Mathematics, Science, and Technology programmes and initiatives, in an endeavour to stimulate and encourage growth of Engineers and Scientists through its flagship programme - Learner Enhancement Programme.

CAREER EXHIBITIONS

The Human Capital Development Programme (CSI flagship programme) is designed to nurture, develop, support, and attract the scarce skill of engineering, particularly in previously disadvantaged communities.

Career Exhibitions

In–line with the above programme, Armscor has conducted career exhibitions county-wide (in provinces such as Kwa-Zulu Natal, Eastern Cape, Western Cape and Gauteng) to previously disadvantaged learners studying maths and physical science subjects. The aim is to provide learners with exposure to the various Engineering and Technical career opportunities that are available in the defence industry and related sectors.

During the period under review approximately 8 000 learners were reached.

Career Exhibitions

Armscor acknowledges the need to address the scarce skills requirements in the country hence its commitment to encourage the youth to undertake technical studies post matric. In order to develop locally and compete globally the country is in need of qualified Engineers, Scientist Artisans to drive economic growth and close the scarce skills gap.

ARMED FORCES DAY

Armscor participated at the Arms Forces Day on 17-21 February 2016 in Port Elizabeth. The objective was to showcase career opportunities within the defence industry to learners.

Armed Forces Day

RAND SHOW PARTICIPATION

As part of brand exposure and enhancing relations with stakeholders, Armscor took part in the Rand Easter show. This was in support of the SANDF, to showcase its capabilities and provide information on career opportunities in defence industry. Armscor received an award for taking part in the show.

SANDF EDUCATION TRUST

Armscor values its relationship with its primary client, the SANDF, as such Armscor has donated R100 000 towards the SANDF Education Trust to empower learner to advance their career aspirations. This is also in line with the CSI flagship programme.

The Trust benefits dependents of SANDF members, who were killed or severely injured while on official duty subsequent to 27 April 1994. They are legible to apply for a bursary to cover their education expenses.

TAKE A GIRL CHILD TO WORK CAMPAIGN

Learners from Bokamoso High School in Hammanskraal (North of Pretoria) were hosted for the entire day on 28 May 2015. The theme for 2015 "Believe, Dream, Achieve" encouraged learners to believe in themselves and their dreams to achieve their goals and overcome obstacles. It is through this campaign that the girls are given an opportunity to visit a workplace in order to gain first-hand experience of the work environment and of careers that are available.

Take A Girl Child To Work Campaign

NELSON MANDELA DAY

Nelson Mandela Day, hosted annually on 18 July, is a critical occasion whereby Armscor staff members proudly give of their time to lend a helping hand to identified beneficiaries. During the year under review, learners from Ribane-Laka Secondary School in Mamelodi received a revamp on their school premises. Armscor staff members cleaned, painted a block of classrooms, donated furniture and garden equipment, as well as 30 uniform packs to needy learners and 30 stationery packs to top performing learners identified by the school. This was done to create a conducive atmosphere for effective learning at the school.

Nelson Mandela Day

Armscor employees extended their benevolence and participated in the "save the water campaign" as well in support of the national campaign to save water in light of drought that struck some parts of the country.

The Dockyard visited the Ocean View Association for People with Disabilities on Nelson Mandela day and fixed leaking toilets, painted, fixed gutters and window frames.

Armscor employees extended their benevolence

The Alkantpan Testing Range (Prieska) together with the Northern Cape Department of Social Development donated 70 blankets to Huis du Picard, a home for the elderly in Prieska. Employees also contributed by buying shoes for underprivileged children in the area.

Armscor employees contributed by buying shoes for under-privileged children

PORTFOLIO COMMITTEE VISIT TO GEROTEK

As some of the National Assembly's key and critical committees, the Portfolio Committee on Defence and Military Veterans and the Joint Committee on Defence visited Gerotek Test Facilities as part of their oversight. The delegation was led by the Chairperson of the Portfolio Committee on Defence and Military Veterans, and the Chairperson of the Joint Committee on Defence. The delegation was warmly welcomed to the facility by Armscor's CEO, Mr Kevin Wakeford, who briefly communicated Armscor's Turnaround Strategy to become both a revenue generating, as well as a cost saving organisation. The visit was concluded with a guided tour of the facility. Committee members were given the opportunity to experience the world-class capability of Gerotek Test Facilities in terms of vehicle testing, as well as Advanced Defensive Driver Training.

Portfolio Committee Visit To Gerotek

STAKEHOLDER OPEN DAY

Armscor undertook brand recognition and perception survey in the 2014/15 financial year, the aim of was to establish the perceptions that stakeholders hold about the Armscor brand and how well the organisation nature of business is recognised by both internal and external stakeholders. Following the negative review received and the minimal awareness of the Armscor brand, Armscor undertook measures to prominently position itself in the minds and hearts of its stakeholders.

In this regard and based on Armscor's strategic direction to market R & D facilities, particularly Gerotek, Alkantpan and Hazmat, one of the recommended actions is to increase the level of awareness of the organisation. Armscor hosted a Gerotek Open Day on the 3 October 2015, the objectives were to:

- Communicate and create awareness of Gerotek as one of Armscor's strategic facilities.
- Inform and educate stakeholders about Gerotek's capabilities.
- Reinforce Gerotek's capabilities to stakeholder who are aware of current offering.
- Create a networking and engagement platform for

both internal and external stakeholders.

- Build, maintain and enhance relationships with stakeholders.

Stakeholder Open Day

MILITARY VETERANS

As part of Armscor's Military Veterans support, Armscor in partnership with the Ministry of Defence honoured women Military Veterans and struggle veterans from across the Nelson Mandela Bay Metro (Port Elizabeth) during Women's Month, August 2015. The Minister of Defence, Nosiviwe Mapisa-Nqakula handed over blankets to the women as a token of appreciation and as a reminder that their contribution to the liberation struggle was not in vain and shall never be forgotten.

In order to align the event with the minister's vision "to take the defence force to the people," a career exhibition was arranged to expose learners from local schools to the different careers that are available in the defence industry.

The Minister of Defence & Military Veterans handing blankets over

WOMEN'S DAY EVENT

Armscor partnered with the Department of Military Veterans (DMV) to host an empowering entrepreneurial

half day workshop for identified military veterans' women on 21 August 2015. Some of the activities undertaken on the day was a financial skills course and a home gardening course.

The event was also planned to integrate and create an engagement platform for Armscor women employees to interact with women military veterans.

Women's month celebrated at Armscor

WOMVASA LAUNCH

Armscor also played an instrumental role during the launch of the Women Military Veterans Association (WOMVASA) by providing necessary support to ensure a successful launch.

During the year under review, Armscor set aside R350 000 to support women military veterans for enterprise development and incubating purposes while also providing support to establish legally and recognised entity. Progress will be reported in the next financial year.

WOMVASA launch.

4.6 AB LOGISTICS

FREIGHT FORWARDING AND TRAVEL SERVICES

AB Logistics (ABL) is responsible for providing logistic freight and travel services in support of maintaining and rendering a comprehensive freight forwarding service to Armscor, SANDF, SADI and foreign defence forces. This is in support of the acquisition supply chain requirements during the import and export process, rendering an air, sea, rail and road freight distribution network to all stakeholders globally.

The business unit is a registered and accredited customs clearing agent with the South African Revenue Services (SARS). ABL is proud to have maintained its compliance status of being a registered transporter of hazardous cargo, weapons and ammunition in terms of the Explosive Act and Firearms Control Act. ABL is a member of the International Federation of Freight Forwarders (FIATA), a European Union Regulated Agent (RA3), the South African Association of Freight Forwarders (SAAFF) and Road Freight Association (RFA). During the year under review, freight services volumes increased by 19% from the previous financial year and the travel services increased by 4% in terms of bookings. The financial contribution made by ABL increased by 36% in real terms compared to the previous year.

ABL continues to support the SANDF on its joint military exercises with other countries and transports the SANDF's equipment for its peacekeeping missions in Africa.

In an endeavour to extend our services to other government departments and institutions, a vendor agreement with Sappi was concluded in the year under review to clear all their Sodium Chlorate import shipments.

In the year under review, ABL has been instrumental in assisting international clients with freights services to test defence equipment at Alkantpan ballistic test range facility in the Northern Cape. ABL is currently undertaking all the import and export customs formalities and domestic transportation of a supersonic land vehicle, currently in development.

As a registered member of the International Air Transport Association (IATA) and the Association of South African Travel Agents (ASATA), ABL Travel contributed 20% to the ABL group profit compared to 34% in the previous financial year.

GROUP ANNUAL FINANCIAL STATEMENTS

04

REPORT OF THE AUDIT AND RISK COMMITTEE

1. INTRODUCTION

The Audit and Risk Committee has been established as a committee of the Board of Directors, in terms of section 12(2) of the Armaments Corporation Act No. 51 of 2003, read with section 77 of the Public Finance Management Act No 29 of 1999, section 94 of the Companies Act, No 71 of 2008. The Committee reports that it has adopted appropriate formal Terms of Reference, which were approved by the Board of Directors and that it has discharged its responsibilities as contained therein, which included the following oversight responsibilities among others:

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

1.2 ensuring the enforcement of adequate systems and control processes in the Corporation for the safeguarding of assets and the management of the revenue, expenditure and liabilities of the group;

1.3 overseeing the preparation of accurate financial reporting and monitoring compliance with all applicable legal requirements and accounting standards; and

1.4 ensuring corporate accountability and governance and the associated risk in terms of management, assurance and reporting.

2. INTERNAL CONTROL ENVIRONMENT

Although the Board of Directors is accountable for the process of risk management and systems of internal control, these processes are reviewed by the Audit and Risk Committee for adequacy and effectiveness. The Audit and Risk Committee has regularly reported to the Board on its activities and made recommendations to the Board, management and Internal Audit as part of the execution of its oversight responsibilities.

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

- Risks are properly managed and reduced to acceptable levels;
- Assets are safeguarded;
- Financial and operational information is reliable;
- Operations are effective and efficient;
- Resources are acquired economically, used efficiently and adequately protected;
- Programmes, plans and objectives are achieved;
- Quality and continuous improvements are fostered in the organisation's control process; and
- Significant legislative or regulatory issues impacting the organisation are recognised and addressed appropriately.

3. ANNUAL FINANCIAL STATEMENT

The Audit and Risk Committee has evaluated the annual financial statements of the Armscor group for the year ended 31 March 2016 and considered that it complies, in all material respects, with the requirements of the Public Finance Management Act (Act No 1 of 1999), as amended, as well as South African Statements of Generally Accepted Accounting Practice.

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

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

DR M KHANYILE

AUDIT AND RISK COMMITTEE CHAIRPERSON

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION

1. I have audited the consolidated financial statements of the Armaments Corporation of South Africa SOC Ltd (Armscor) and its subsidiaries set out on pages 91 to 135, which comprise the statement of financial position as at 31 March 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

THE ACCOUNTING AUTHORITY'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

2. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with the Statements of South African Generally Accepted Accounting Practice (SA Statements of GAAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR-GENERAL'S RESPONSIBILITY

3. My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

6. In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Armscor and its subsidiaries as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Statements of GAAP and the requirements of the PFMA and the Companies Act of South Africa.

ADDITIONAL MATTER

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

UNAUDITED SUPPLEMENTARY INFORMATION

8. The supplementary statement, group four-year review and group value-added statement, set out on pages 88 to 90 does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

9. As part of our audit of the consolidated financial statements for the year ended 31 March 2016, I have read the director's report and the audit committee report for the purpose of determining whether there were material inconsistencies between these reports and the audited consolidated financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports I have not identified material inconsistencies between the reports and the audited consolidated financial statements. I have not audited the reports and, accordingly, do not express an opinion on them.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

10. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected programmes presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion thereon.

PREDETERMINED OBJECTIVES

11. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected programmes presented in the annual performance report of the entity for the year ended 31 March 2016:

- Goal 1: CAT 1 - Capital defence matériel acquisition excluding strategic acquisition but including technology acquisition (projects), on page 76.
- Goal 2: System support acquisition and procurement, on page 76.
- Goal 3: Schedule placement, on page 77.
- Goal 4: Management of defence industrial participation (DIP), on page 77.
- Goal 5: Management and execution of defence technology, research, test and evaluation requirements of the Department of Defence, on page 77.
- Goal 6: Management and performance against Dockyard mandate, on page 78.

12. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

13. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

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

- Goal 1: CAT 1 - Defence matériel acquisition excluding strategic acquisition but including technology acquisition
- Goal 2: System support acquisition and procurement
- Goal 3: Schedule placement
- Goal 4: Management of defence industrial participation
- Goal 5: Management and execution of defence technology, research, test and evaluation requirements of the Department of Defence
- Goal 6: Management and performance against Dockyard mandate.

ADDITIONAL MATTER

15. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matter:

ACHIEVEMENT OF PLANNED TARGETS

16. Refer to the annual performance report on pages 75 to 87 for information on the achievement of the planned targets for the year.

COMPLIANCE WITH LEGISLATION

17. I performed procedures to obtain evidence that the entity had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any material instances of non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

INTERNAL CONTROL

18. I considered internal control relevant to my audit of the consolidated financial statements, annual performance report and compliance with laws and regulations. I did not identify any significant deficiencies in internal control.

Auditor-General

Pretoria
29 July 2016

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

DIRECTORS' APPROVAL OF THE ANNUAL REPORT

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

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

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

Against this background the Directors of Armscor accept responsibility for the financial statements. The information on pages 70 to 136 was approved by the Board of the Directors on 19 August 2016.

Vice Admiral (ret) J Mudimu

CHAIRMAN OF THE BOARD OF DIRECTORS

CERTIFICATE

In terms of section 88 (2) (e) of the Companies Act 71 of 2008 (as amended), (the Act), it is hereby certified that for the year ended 31 March 2016, the Armaments Corporation of South Africa SOC Limited has lodged with the Commissioner all required returns and notices in terms of the Act and that all such returns and notices appear to be true, correct and up to date.

Adv. B. N. Senne

COMPANY SECRETARY

DIRECTORS' REPORT

INTRODUCTION

This is the Directors Report for the period 2015 – 2016 and relates to the performance of the Corporation for the year under review.

BACKGROUND

The Armaments Corporation of South Africa Limited ("Armscor") is a statutory body, established in terms of the Armaments Corporation of South Africa Limited Act (Act No 51 of 2003), as amended. It is also a State Owned Company as contemplated in the Companies Act, 2008. Furthermore, it is listed as a schedule 2 Public Entity in terms of the Public Finance Management Act (Act 1 of 1999), as amended (PFMA). It is further regulated by the Regulations issued in terms of the PFMA and those of the Companies Act, 2008.

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

NATURE OF BUSINESS

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

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

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

Armscor may, with the approval of the Minister, exploit such commercial opportunities as may arise out of the Corporation's duty to acquire defence 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, 2002 (Act No. 41 of 2002), the Regulation of Foreign Military Assistance Act, 1 998 (Act No. 15 of 1998), and the Non-Proliferation of Weapons of Mass Destruction Act 1993 (Act No. 87 of 1993), perform any function which the Corporation may perform for or on behalf of the Department in terms of this Act for or on behalf sovereign any of State.

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

SHARE CAPITAL

The Government of the Republic of South Africa, represented by the Minister of Defence and Military Veterans, is the sole shareholder of the Corporation. No new shares were issued during the year under review.

ORGANISATIONAL STRUCTURE

The organisational structure of the Corporation appears on page 7 of this report.

COMMUNICATION WITH THE EXECUTIVE AUTHORITY

The Executive Authority for Armscor is the Minister of Defence, who represents the Shareholder. Communication with the Executive Authority is channelled primarily through the office of the Chairman. There are further engagements between the Ministry of Defence and Military Veterans 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 Curricular Vita appear on page 8 to 10 of this report.

CORPORATE GOVERNANCE

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

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

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

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

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

The Board has four (4) Committees, namely the Acquisition Committee; Human Resources, Social and Ethics Committee; Technology and Industry Support Committee and Audit and Risk Committee. The Committees consider submissions from Management on critical issues affecting the Corporation and report on their work at each Board meeting.

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.

MEETINGS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES

Table 1 below shows the meetings of the Board and its Committees and the attendance of meetings during the year under review.

Attendance of Board of Directors meetings and its Committee meetings: 2015/2016

NAMES	BOARD OF DIRECTORS MEETINGS	ACQUISITION COMMITTEE	HUMAN RESOURCES, SOCIAL & ETHICS COMMITTEE	AUDIT & RISK COMMITTEE	TECHNOLOGY & INDUSTRY SUPPORT COMMITTEE
Vice Admiral (ret) J Mudimu	5 out of 7	Non-member	Non-member	Non-member	Non-member
Ms T Skweyiya	7 out of 7	Non-member	5 out of 5	Non-member	3 out of 5
Dr MB Khanyile	7 out of 7	4 out of 5	Non-member	5 out of 5	Non-member
Adv. VLA de la Hunt	6 out of 7	Non-member	4 out of 5	Non-member	4 out of 5
Adv. S Baloyi	0 out of 7	1 out of 5	Non-member	0 out of 5	Non-member
Mr. NM Tyibilika	6 out of 7	4 out of 5	Non-member	5 out of 5	5 out of 5
Mr. RM Vokwana	6 out of 7	4 out of 5	4 out of 5	Non-member	Non-member
Mr. KPE Wakeford (CEO)	5 out of 7	4 out of 5	2 out of 5	4 out of 5	4 out of 5
Mr. JG Grobler (CFO)	7 out of 7	5 out of 5	Non-member	5 out of 5	5 out of 5

External member

Mr. L Kuse	Non-member	Non-member	Non-member	5 out of 5	Non-member

Company Secretary

Adv. NB Senne	6 out of 7	5 out of 5	5 out of 5	4 out of 5	5 out of 5

Special and extraordinary meetings of the board: 2015/16

NAME	SPECIAL BOARD MEETINGS	SPECIAL ACQUISITION COMMITTEE MEETINGS	BOARD ENGAGE-MENT WITH PORTFOLIO COMMIITTEE	BOARD BREAKAWAY SESSION	SPECIAL AUDIT AND RISK COMMITTEE MEETINGS
Vice Admiral (ret) J Mudimu	2 out of 2	Non-member	3 out of 3	1 out of 1	Non-member
Ms T Skweyiya	2 out of 2	Non-member	2 out of 3	1 out of 1	Non-member
Dr MB Khanyile	2 out of 2	1 out of 1	3 out of 3	1 out of 1	1 out of 1
Adv. VLA de la Hunt	1 out of 2	Non-member	3 out of 3	0 out of 1	Non-member
Adv. S Baloyi	0 out of 2	0 out of 1	0 out of 3	0 out of 1	Non-member
Mr. NM Tyibilika	2 out of 2	1 out of 1	2 out of 3	1 out of 1	1 out of 1
Mr. RM Vokwana	2 out of 2	1 out of 1	2 out of 3	1 out of 1	0 out of 1
Mr. KPE Wakeford (CEO)	2 out of 2	1 out of 1	3 out of 3	1 out of 1	1 out of 1
Mr. JG Grobler (CFO)	2 out of 2	1 out of 1	3 out of 3	1 out of 1	1 out of 1

External member (Audit and Risk Committee)

Mr. L Kuse	Non-member	Non-member	Non-member	Non-member	1 out of 1

Company Secretary

Adv. NB Senne	2 out of 2	1 out of 1	3 out of 3	1 out of 1	1 out of 1

EXECUTIVE MANAGEMENT

Mr Kevin Wakeford has started on 1 May 2015 as Chief Executive Officer during the year under review. He has stepped up to the plate and shown his mettle. We are excited about the changes he is bringing to the Corporation and confirm that he works closely with and under the direction of the Board in the execution of his work.

STAKEHOLDER RELATIONS

The Board is satisfied that its stakeholder relations landscape is solid and conducive to the proper discharge of Armscor's responsibilities. This evidenced by the increased trust demonstrated by the Department of Defence by tasking the Corporation on many issues that would previously not have reached Armscor. The Board meets on a regular basis with the Aerospace, Maritime and Defence Association to engage on matters of interest, including the timely provision of products and services to the South African National Defence Force. The Board has also engaged with its sister organisations such as Denel SOC Limited and the Council for Scientific and Industrial Research.

STRATEGY

The Strategy of the Corporation operates under the theme: In Time on Time – Towards a Sustainable Future. Our Strategic initiatives of Acquisition excellence; Technology advancement; Resourcing of Armscor's capabilities; Industry sustainability and stakeholder relationships are therefore fully embedded in the Corporate Plan and reported on in this report.

Financial Turnaround and Business Re-Orientation

The Corporation takes cognisance of the fact that it needs to revisit its operating model if it is to remain relevant to its main client, the SANDF and the Department of Defence. In order to do this, the Corporation has begun with the appointment of turnaround consultants to, amongst others, assist it in ramping up on its business opportunities arising from its duty to provide products and services to the SANDF. This includes the setting up of a Business Development Unit. As a spin off to this approach, the Corporation has already attracted various tasks from the DOD, such as the sweating of assets of the DOD to contribute to the funding of the Defence Review. The Corporation has also received a request from the Eastern Cape Provincial Government to procure an operator for the provincial Special Economic Zones. These activities are being carried out at a fee in favour of the Corporation. We have also issued Requests for Proposals to extract value from our various lands and facilities together with the private sector. This will increase our revenue streams and stabilise our financial position.

Acquisition Excellence

The Corporation seeks to shorten the timeframes for the provision of services and products to, and to be a knowledgeable buyer for the SANDF. In practice this means that products and services that can be procured quickly off the shelf instead of being developed are procured speedily. This cuts the turnaround time for delivery significantly.

Technology Excellence

The Corporation owns and manages a range of institutes which provides technological support, test and evaluation services to the SANDF and other international clients. We are managing any factors that may impair our ability to continue to provide technological support to the SANDF. We are convinced that through the support of our principals, we will meet our stated mandate. Central to the current strategy is the issue of IP management and the realisation of value from the investment made by the DOD. In this regard, the Corporation has entered into meaningful engagements with the private defence industry to enter into agreements that will regularise their use of our IP and to obtain royalties for such use. This principle applies to all future IP transactions.

Industry Sustainability

We remain committed to supporting the defence industry as part of our mandate. This is evidenced by the regularity with which we engage with the AMD and non AMD members. Seminally, we are involved in the crafting of the Defence Industry Charter, together with the DOD and the Defence Industry as a whole. This will facilitate the transformation of the defence industry to be inclusive and locally oriented. The Corporation has also commenced with partnership agreements with private sector funders such as the Masisizane Fund to assist SMMEs. We have also begun exploring the modalities of setting up an Industry Support Fund. The fund is aimed at supporting the full spectrum of SMME needs, such as exports, insurance, logistics and bulk supply.

COMPLIANCE WITH LAWS AND REGULATIONS

During the previous reporting period, we reported that the mandatory 25% B-BBEE had been removed from our scoring system. This was done with a view to comply with the Auditor-General's view that such a threshold was not in line with the Preferential Procurement Framework Act. We have since then obtained condonation from National Treasury in respect of all transactions entered into based on the 25% B-BBEE. This nullifies the non-compliance of the previous reporting period.

FINANCIAL REPORTING

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

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

The Directors are of the opinion that the financial statements fairly present the financial position of the Corporation as at 31 March 2016 the results of their operations and cash flows for the year then ended.

The Board has reviewed the Group's financial budgets for the period 1 April 2016 to 31 March 2017 and is satisfied that adequate resources exist to sustain the Corporations operations. Armscor is, furthermore, in discussion with the Department of Defence to ensure proper funding for the required functions to be performed. The directors, therefore, have no reason to believe that Armscor will not remain a going concern in the foreseeable future.

DIVIDENDS

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

EVENTS AFTER REPORTING PERIOD

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 reporting date and the production date of this report.

VACANCIES

The Board has three vacancies, constituted as follows:

- The vacancy that was not filled at the time of the appointment of the Board;
- The passing on of Mr Mobu; and
- The resignation of Adv. Baloyi on 17 March 2016.

PERFORMANCE AGAINST GOALS

OPERATIONAL OBJECTIVES FOR THE 2015/2016 FINANCIAL YEAR

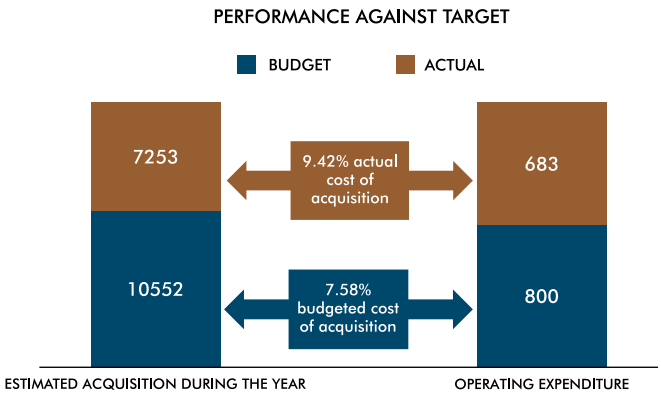
The Armscor three year integrated Corporate Plan define two groups of performance indicators. The first group addresses performance indicators to measure the execution of Armscor's functions as defined in the Armscor Act and as agreed on in the SLA with the DOD while the second group measures the attainment of the strategic objectives of the group.

PERFORMANCE AGAINST GOALS

In addition to the above Armscor use an overall efficiency measure which is the cost of acquisition. This measure reflects the ratio of operating cost incurred versus the acquisition cash flow during the reporting period based on the total forecasted acquisition activities (revised baseline). A cost of 7,58% was budgeted for the 2015/2016 financial year taking into consideration the baseline for contracting of R11,948b and the agreed performance requirement to commit 95% for capital acquisition and 92% for operational procurement thereof while contractual payments should be 95% for capital acquisition and 92% for operational procurement of the committed amount.

The acquisition cost achieved based on actual cash flow was 9,42% compared to the 7,58% budgeted figure which was a result of lower expenditure due to reasons as stated in the performance measurement while R382m of requirements included in the baseline were not received from the Department of Defence.

The actual percentage of 9,42% furthermore represents a 5% increase from the actual figure of 8,97% for the 2014/15 period which reflects the various cost containment actions that Armscor implemented.



Performance against the Service Level Agreement Objectives is as follows (as per approved Corporate Plan):

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

The objectives are defined as follows:

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

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

Goal 2: System support: Acquisition and procurement

The objectives are defined as follows:

- **Contracts to be placed by Armscor**
  Armscor's target of 92% of commitment of funds to be measured against the formally planned value of commitments, which is based on requirements received and confirmed as valid requirements from the DOD.

- **Cash-flow (contractual payments made)**
  Armscor's target of 92% cash-flow would be measured against the formally planned cash-flow in terms of achieved commitments for the financial year.

Goal 3: Placement schedule

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

Goal 4: Management of Defence Industrial Participation (DIP)

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

Management and execution of defence technology, research, test and evaluation requirements of the Department of Defence

The target of Armscor Defence Institutes is set to achieve 92% completion of contractual milestones/deliveries as per orders received.

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

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

Goal 1: Cat 1 capital defence matériel acquisition excluding strategic defence acquisition but including technology acquisition			
Key performance indicator (Projects)	Goal	Achieved	Performance against goal
1.1 Contracts to be placed by Armscor Armscor's target of 95% commitment of funds to be measured against the formally planned value of commitments, which is based on requirements received and confirmed as valid requirements from the DOD.	95%	98,04%	New DOD requirements to the value of R1 852,547m were received. Armscor committed R1 816,259m of the above mentioned funds resulting in an achievement of 98,04%. **Objective exceeded.**
1.2 Cash-flow (contractual payments made) Armscor's target of 95% cash-flow would be measured against the formally planned cash-flow in terms of achieved commitments for the financial year. Actual cash-flow will be measured against planned cash-flow in terms of Fist Revision and adjusted for factors beyond Armscor's control. Furthermore, cash-flow is updated on an on-going basis with commitments during the year.	95%	98,77%	The planned cash flow for orders placed was R4 732,9m. Armscor managed to realise cash flow to the value of R3 026,682m resulting in an achievement of 63,95%. Adjustments for factors beyond Armscor's control amounted to R1 668,497m. This results in a final achievement of 98,77%. **Objective exceeded.**

Goal 2: System support: Acquisition and procurement			
Key performance indicator (Operational funds)	Goal	Achieved	Performance against goal
2.1 Contracts to be placed by Armscor. Armscor's target of 92% 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.	92%	99,16%	New DOD requirements to the value of R561,077m were received. Armscor committed R556,362m of the above mentioned funds resulting in an achievement of 99,16%. **Objective exceeded.**
2.2 Cash-flow. Armscor's target of 92% cash-flow would be measured against the formally planned cash-flow in terms of achieved commitments for the financial year. Actual cash-flow will be measured against planned cash-flow in terms of Fist Revision and adjusted for factors beyond Armscor's control. Furthermore, cash-flow is updated on an on-going basis with commitments during year.	92%	94,51%	The planned cash flow was R5 013,326m. Armscor managed to realise cash flow to the value of R4 167.336m resulting in an achievement of 83,13%. Adjustments for factors beyond Armscor's control amounted to R603,828m. This results in a final achievement of 94,51%. **Objective exceeded.**

Goal 3: Schedule placement			
Key performance indicator (projects)	Goal	Achieved	Performance against goal
3.1 Average time taken from receipt of requirement to placement of contract is 90 days.	90 days	75,2 days	An average of 75,2 day's taken from receipt of obligation to placement of contract which results in an achievement of 119,68%. **Objective exceeded.**

Goal 4: Management of Defence Industrial Participation (DIP) A certain percentage of counter-performance is negotiated by Armscor with overseas suppliers on all contracts in excess of USD 2m. The management of these counter-performances is included as an objective for Armscor, and the target is reflected in the following table:			
Key performance indicator	Goal	Achieved	Performance against goal
4.1 Value of DIP credits to be granted to overseas suppliers.	R101,5m	R103,8m	DIP credits to the value of R103 776 022 have been awarded during the 2015/16 financial year. **Objective exceeded.**

Goal 5: Management and execution of Defence Technology, Research, Test and Evaluation requirements of the Department of Defence			
Key performance indicator	Goal	Achieved	Performance against goal
5.1 Armscor Research & Development to achieve contractual milestones / deliveries as per agreed Memoranda of Agreement and orders received for the financial year.	92%	99,6%	Contracts to the value of R224 046 002 were concluded for the 2015/16 financial year. Contractual milestones / deliveries to the value of R223 193 029 was realised resulting in a 99,6% achievement. **Objective exceeded.**

Goal 6: Management and performance against Dockyard Mandate (SA Navy / Dockyard Performance Management in terms of Service Level Agreement with the SA Navy Agreement)			
Key performance indicator	Goal	Achieved	Performance against goal
6.1 Ensure adherence to Project contractual milestone planned dates as approved in project plan.	90%	97,35%	Measurement is for projects taken on by the Dockyard in accordance with available resources and under full Dockyard management control. All projects signed off by the SA Navy. **Objective exceeded.**
6.1.1 SAS DRAKENSBERG (REFIT)		94,05%	The project has successfully been completed and signed off by the SA Navy on 29 September 2015. Dockyard achieved 94.05% performance against a target of 90%. **Objective achieved.**
6.1.2 TUG INDLOVU (DED)		100%	The project has successfully been completed and signed off by the SA Navy on 6 August 2015. Dockyard achieved 100% performance against a target of 90%. **Objective achieved.**
6.1.3 SAS PROTEA (DED)		98,0%	The project has successfully been completed and signed off by the SA Navy on 26 May 2015. Dockyard achieved 98% performance against a target of 90%. **Objective achieved.**
6.2 Manage project finances in accordance with approved budget (financial authorities) and cash-flow plan. Ensure 90% compliance with projects cash flow management.	90%	98,65%	Financial Authorities were committed within 60 days. Cash flow of 98.65% achieved and signed off by the SA Navy. **Objective exceeded.**
6.3 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.	90%	100%	Ancillary Services delivered in accordance with SA Navy requirements and signed off by the SA Navy. **Objective exceeded.**
6.4 Ensure that training provided is in accordance with the plan submitted by the SA Navy reporting period. 90% compliance with SA Navy requirements.	90%	100%	Training requirements requested by the SA Navy were provided and signed off by the SA Navy. **Objective exceeded.**
6.5 Ensure that quarterly reports are provided to Fleet Officer Flag that addresses inter-alia project performance status, financial statements, risks with mitigating plans, capabilities, facilities and ancillary services status reporting as per reporting timeline schedule.	90%	100%	All quarterly reports submitted to Flag Officer Fleet as per agreed time schedule and signed off by the SA Navy. **Objective exceeded.**

PERFORMANCE AGAINST GROUP CORPORATE OBJECTIVES

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

Strategic objective 1: Acquisition excellence			
Key performance indicator	Goal	Achieved	Performance against goal
1.1 Capital Acquisition Process Improvement: a. Facilitate and implement the review of the capital acquisition process.	31 March 2016	5 Feb 2016	DAP1000 (Departmental Acquisition Procedure) update process has been completed. Directive signed by the MOD&MV on 5 February 2016. **Objective exceeded.**
1.2 Improve contracting process: a. Establish umbrella agreements with identified single source suppliers of commodities.	31 March 2016	16 Nov 2015	Umbrella contracts with ammunition suppliers approved by Board of Directors on 16 November 2015. **Objective exceeded.**
b. Implement shortened contracting process for Commercial and Military off the Shelf procurement.	31 March 2016	11 April 2016	Shortened contracting process developed and approved by EXCO on 11 April 2016. (Meeting of EXCO deferred to 11 April 2016). **Objective achieved.**
1.3 Defence Industrial Participation (DIP): a. Revise Armscor's DIP policy to facilitate support of National Development Plan objectives, development of Small, Micro and Medium Enterprises (SMMEs) and Black Economic Empowerment (BEE) companies, through-life support of SANDF systems and maintenance of strategic and sovereign capabilities.	31 March 2016	28 October 2015	The DIP Policy was approved by the Board of Directors on 28 October 2015. **Objective exceeded.**

Strategic objective 2: Technology advancement			
Key performance indicator	**Goal**	**Achieved**	**Performance against goal**
2.1 Technology Management, Development and Test Services: a. Approved Technology Development Master Plan.	31 March 2016	2 April 2015	The Technology Development: 2015/16 MTEF Programme was approved by the Minister of Defence and Military Veterans on 2 April 2015. **Objective exceeded.**
2.2 Intellectual Property Management: a. Establish and maintain IP Register that meets Auditor-General's (AG) requirements.	31 March 2016	31 March 2016	IP Registers updated with new IP during the year. **Objective achieved.**
b. Establish approved IP Royalties Management and Disbursement System.	31 March 2016	31 March 2016	IP Royalty Management and Disbursement system established and operational. **Objective achieved.**

Strategic objective 3: Resourcing of Armscor capabilities			
Key performance indicator	**Goal**	**Achieved**	**Performance against goal**
3.1 Financing of Armscor a. Establish a Service Level Agreement with SAPS.	31 March 2016	31 March 2016	Discussions were held with SAPS in order to finalise services required and fee payable. A presentation was made to the Justice, Crime Prevention and Security Cluster (JCPS) on 1 March 2016 to market Armscor's services. A draft SLA was supplied to SAPS but is not finalised. **Objective not achieved.**
b. Establish a Service Level Agreement with Correctional Services.	31 March 2016	31 March 2016	Discussions were held with Correctional Services in order to finalise services required and fee payable. A presentation was made to the Justice, Crime Prevention and Security Cluster (JCPS) on 1 March 2016 to market Armscor's services. **Objective not achieved.**

Strategic objective 3: Resourcing of Armscor capabilities			
Key performance indicator	Goal	Achieved	Performance against goal
c. Grow commercial income of strategic facilities.	5%	16,03%	R&D to realise a 5% increase on the approved budgeted income. Approved budgeted Commercial income: R118 867 044. Commercial income realised: R137 923 974. Representing a 16,03% increase on the approved budgeted commercial income. **Objective exceeded.**
d. Increase revenue from other departments (e.g. SAPS and Corrective Services) to reduce budgeted deficit.	Conclude service agreement allowing charging for services.	No income generated.	SLA's not finalised and no income generated from other departments. **Objective not achieved.**
e. Identify opportunities to exploit military technologies and IP to develop products through the use by the SA National Defence Force or civil products produced directly from the IP held by the Corporation. o Implement 90% of the approved research & development business plan. • Identify one commercial opportunity to pursue.	31 December 2015	28 October 2015	The Board of Directors approved on 28 October 2015 the exploitation on the IP of the Concept Development & Experimentation Centre (CDEC) project on various technologies such as Radar Emulator; Joint Planning Tool; Data/Communication Link Processor and Gripen Ground Station. **Objective exceeded.**
3.2 Effectiveness of the organization Establish implementation plan of approved recommendations of Dockyard Modernisation Study.	31 December 2015	31 March 2016	The establishment of an implementation plan of approved recommendations for the Dockyard was superseded following the Minister's Budget Vote Speech of May 2015, for the transfer of the Dockyard to the DOD (SA Navy). A Dockyard Way Forward strategy was developed and presented to the Minister of Defence and Military Veterans. The Council on Defence (COD) resolved that a harmonious and consolidated presentation supported by all stakeholders be prepared for submission. Approval was provisionally granted by the Council of Defence in September 2015 to investigate the transfer of the Dockyard to Denel. A Task Group was established and an engagement process with all stakeholders as per the COD instruction is underway. **Objective not achieved as overtaken by other events.**

Strategic objective 3: Resourcing of Armscor capabilities			
Key performance indicator	**Goal**	**Achieved**	**Performance against goal**
3.3 Infrastructure renewal a. Renew application systems to improve effectiveness and efficiency. o Implement HR, Payroll and Budget modules.	31 March 2016	31 March 2016	Tender process and subsequent contracting completed later than expected due to need to thoroughly address all questions about solution delivery. Analysis and development has started. Aspects of the solution are now ready for demonstration. **Objective not achieved.**
b. Improve Information Security. o Implement Data Leakage Prevention Solution.	31 March 2016	31 March 2016	The product procurement was completed and the tender cancelled due to no appropriate solution being found. Various technologies are being considered to cover aspects of the requirement, e.g. rights management, mobile device encryption etc. The scope has been extended from procurement of a product that solves part of the problem to a more comprehensive approach for data leakage prevention. Additional interventions include the following: • Penetration testing conducted to access the level of success with internal security mechanisms confirmed. • Implemented various encryption tools including mobile platforms. • Extended the scope of the security incidents response team to include events outside the Armscor environment. • Started the architecture overhaul process to deal with identified vulnerabilities started. **Objective partially achieved.**

Strategic objective 3: Resourcing of Armscor capabilities			
Key performance indicator	**Goal**	**Achieved**	**Performance against goal**
3.4 Transformation of the organisation a. Achievement of approved Equity Plan that is directed towards: • Increasing race representation.	66% black employees	74,86%	**Goal:** 1 155 out of a total of 1 605 employees must be black. **Achieved:** 1 203 employees out of 1 607 employees are black. **Objective exceeded.**
• Improving gender composition.	34% female employees	34%	**Goal:** 584 out of a total of 1 605 employees must be female. **Achieved:** 545 employees out of 1 607 employees are female. **Objective achieved.**
b. Controllable staff turnover in technical positions, excluding retirements.	≤ 4,5%	4,33%	There were 31 (out of 715 technical positions) resignations for the year: OS level - 1 AS Level – 5 STS level – 9 MP level – 15 EX level – 1 **Objective exceeded.**
3.5 Human capital development a. Skills Development. • Bursaries for full-time studies (number of students).	27 students	27 students	The corporate target that was set for awarding bursaries in 2015/16 was 27 and has been achieved: Bursaries were given for: BSc. Applied Physics & Maths: 1 BSc. Human Kinetics & Ergonomics: 2 BSc. Human Kinetics & Psychology: 1 BSS. Psychology & Sociology: 1 BSS. Psychology & Human Kinetics & Ergonomics: 1 BSS. Psychology & Human Kinetics: 1 BSc. Physics & Computer Science: 1 BSc. Computer Science: 1 BEng. Electrical: 2 BEng. Mechanical: 4 BSc. Eng. Mechanical: 1 BSc. Eng. Electrical: 4 BSc. Eng. Electronics: 1 BCom. Accounting: 1 BSc. Eng. Aeronautical: 2 BSc. Biochemistry & Botany: 1 BSc. Chemistry: 1 BSc. GIS & Computer Science: 1 **Objective achieved.**

Strategic objective 3: Resourcing of Armscor capabilities			
Key performance indicator	Goal	Achieved	Performance against goal
• Appointment and development of Talent Development Programme employees (number of employees through programme).	30 employees	30 employees	30 talent development candidates went through the programme. **Objective achieved.**
b. Succession Planning • Succession Planning and conformance to plan (key identified positions).	80%	87,28%	87,28% compliance with the development plan as contracted with successors (Armscor excluding the Dockyard). **Objective exceeded.**
3.6 Create a positive organizational culture • Employee satisfaction measurement (previous year used as baseline for measurement).	67,69% (3,5% improvement on 64,54%)	68,71%	Improvement in employee satisfaction survey from 67,69% (2015) to 68,71 (2016). **Objective achieved.**

Strategic objective 4: Industry sustainability			
Key performance indicator	**Goal**	**Achieved**	**Performance against goal**
4.1 Support development of local industry a. Implement the BBBEE Policy to assist with the transformation and sustaining of the local defence industry.	28 February 2016	26 February 2016	• Suppliers are engaged on BBBEE transformation to ensure that BBBEE elements of the scorecard are achieved by suppliers which include black equity ownership. Suppliers that have no black equity ownership including low performance on the other BBBEE elements are engaged to transform. • BBBEE Spend is monitored against targets to ensure that Armscor spends as per the BBBEE Codes of Good Practice targets on at least 51% black owned and at least 30% black women owned. If the targets are not achieved this is highlighted to the relevant department./s • Suppliers are engaged on skills development, employment equity and supplier development. When suppliers engagement takes place, suppliers are requested to indicate how the skills development especially in the technical field, employment equity and supplier development will be achieved. • Armscor has always maintained a supplier database to register suppliers. Suppliers were requested to be registered on Armscor supplier database before any placement of orders. With the introduction of central supplier database (CSD) by National Treasury, suppliers are registering on the CSD. • BBBEE information for all tenders is submitted to BEE Division and verified to confirm the BBBEE score for each supplier. Once this information is verified, a BEE scorecard with the relevant score is approved. • Suppliers are audited when the need arises to confirm BBBEE credentials. • Support including advice is provided to suppliers including BBBEE suppliers to ensure BBBEE compliance and to maximise BBBEE points. **Objective achieved.**

Strategic objective 4: Industry sustainability			
Key performance indicator	Goal	Achieved	Performance against goal
b. Position paper on need for the Defence Sector Charter.	31 August 2015	31 August 2015	The submission was approved by EXCO on 31 August 2015. Armscor secured the Ministers support for the need to develop a Defence Sector Charter and consulted with the Department of Defence and the South African Aerospace Maritime and Defence Industries Association and subsequently contracted for the establishment of a Defence Sector Charter. **Objective achieved.**
c. Increase % of local industry spent in respect of Special Defence Account and General Defence Account managed by Armscor (increase based on previous year's spending).	2% improvement	(6,6%)	**2014/15:** Total payments for year: R7 340m; Local: R6 282,00m. **2015/16:** Total payment for year: R7 194m; Local: R5 683m. Actual local spending represents 79% of total compared to 85,59% for 2014/15. This results in a decrease of 6,6% compared to previous year's percentage spending. **Objective not achieved.**
4.2 Shows and Exhibitions Facilitation of industry participation at local and SADI shows and exhibitions as approved by the Board.	31 March 2016	31 March 2016	Armscor facilitated and participated at the following exhibitions: • LAAD 2015 (14-17 April in Brazil). • IDEF 2015 (5-8 May in Turkey). • Land forces Conference and Exhibition 2015 (6-7 July in Tshwane). • DSEI 2015 (15-18 September 2015 in UK). • Milipol Paris 2015 (17-20 November in France. • Forum on China-Africa Cooperation (FOCAC) 4-5 December 2015 in Sandton. • DEFEXPO India 2016 (27-31 March 2016 in India). **Objective achieved.**

Strategic objective 4: Industry sustainability			
Key performance indicator	**Goal**	**Achieved**	**Performance against goal**
4.3 Marketing support organisation Expand and update of the marketing intelligence database.	31 March 2016	11 April 2016	Marketing intelligence database established and updated by 23 March 2015 and DRC marketing intelligence report on 11 April 2016. **Objective achieved.**

Strategic objective 5: Stakeholder relationships			
Key performance indicator	**Goal**	**Achieved**	**Performance against goal**
5.1 Stakeholder Engagement Strategy Implement the approved Stakeholder Engagement Plan.	31 March 2016	31 March 2016	Internal and external stakeholders' initiatives implemented within funding limitations. **Objective achieved.**

GROUP: FOUR YEAR REVIEW (unaudited)

AT 31 MARCH 2016

	2016 Rm	2015 Rm	2014 Rm	2013 Rm
STATEMENT OF FINANCIAL POSITION				
NET ASSETS				
Property, plant and equipment	1 516,1	1 189,1	1 229,8	1 322,0
Investment property	72,9	110,0	110,0	-
Intangible assets	7,1	0,9	1,1	0,9
Other non-current assets	-	1,3	-	0,9
Other non-current liabilities	(59,3)	(87,2)	(166,6)	(108,7)
Net current assets	653,0	604,6	534,3	442,4
Financial instruments	129,1	747,7	712,5	607,5
Post-retirement medical benefit liability	(126,7)	(571,4)	(513,1)	(460,3)
	2 192,2	**1 995,0**	**1 908,0**	**1 804,7**
EQUITY AND LIABILITIES				
Ordinary shareholders' interest	**2 192,2**	**1 995,0**	**1 908,0**	**1 804,7**
STATEMENT OF COMPREHENSIVE INCOME				
REVENUE				
Sale of goods and services	370,1	400,5	345,5	308,2
Allocation from the State budget for operating expenditure	858,7	913,3	870,7	748,1
Finance income	73,7	82,3	48,8	41,1
Rental income	55,6	50,5	46,0	42,6
Other income	37,1	78,5	136,6	116,0
	1 395,2	**1 525,1**	**1 447,6**	**1 256,0**
TOTAL COMPREHENSIVE INCOME	**200,1**	**84,2**	**103,3**	**1 193,6**

GROUP VALUE-ADDED STATEMENT

FOR THE YEAR ENDED 31 MARCH 2016

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

	2016 Rm	%	2015 Rm	%
Sale of goods and services	370,1		400,5	
Allocation for operating expenditure (Government grant)	858,7		913,3	
Rental income	55,6		50,5	
Other income	37,1		78,5	
Finance income	73,7		82,3	
Revenue	1 395,2		1 525,1	
Less: Paid to suppliers for materials and services	(116,5)		(406,5)	
TOTAL VALUE ADDED	**1 278,7**	**100**	**1 118,6**	**100**
DISTRIBUTED AS FOLLOWS:				
To employees as salaries, wages and other benefits	977,9	76	914,5	82
To Government as taxation	35,8	3	55,3	4
TOTAL VALUE ADDED DISTRIBUTED	1 013,7	79	969,8	86
Portion of value added reinvested to sustain and expand the business	265,0	21	148,8	14
TOTAL VALUE ADDED DISTRIBUTED AND REINVESTED	**1 278,7**	**100**	**1 118,6**	**100**
TAXATION				
Paid in taxes to Government				
• Income tax paid	23,7		41,2	
• Rates and taxes to local authorities	12,1		14,1	
	35,8		55,3	
Collected on behalf of, and paid over to Government				
• Employees taxation deducted from remuneration paid	355,4		183,1	
• Unemployment Insurance Fund	2,6		2,7	
• Net value added taxation (VAT)	109,8		126,1	
	467,8		**311,9**	

ARMSCOR GROUP

FINANCIAL RESULTS FOR THE YEAR ENDED 31 MARCH 2016

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

STATEMENT OF FINANCIAL POSITION

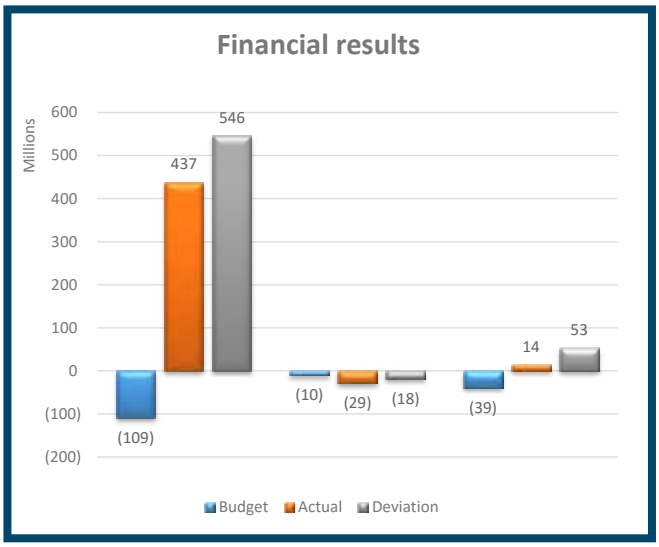
Group reserves increased from R1 920,0 million to R2 117,2 million mainly as a result of the gains on property revaluations during the year. Cash and cash equivalents form a substantial part of the assets and are reserved to finance specific future obligations. The Group invested R38,2 million in acquiring plant, intangible assets equipment as well as addition to existing facilities.

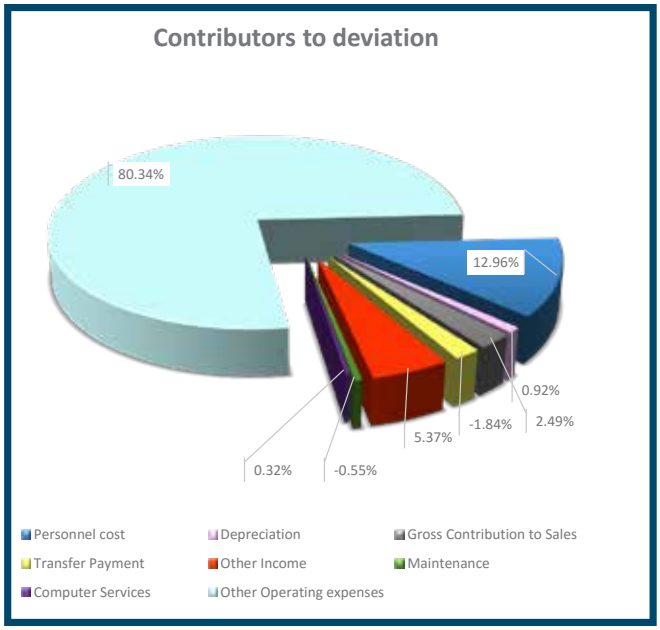
STATEMENT OF COMPREHENSIVE INCOME

The net financial result of the Group reflects a surplus of R200,1 million compared to R84,2 million in the previous financial year. Total revenue declined by 7,6% while operating expenditure increase by 13,1%. The net results include a loss of R139,5 million relating to the settlement made to members of the Armscor Medical Benefit Fund. Furthermore, a net gain on revaluation of properties of R360,8 million is included in the net results.

COMPARISON WITH BUDGET

If compared with Group budgeted deficit of R158 million (excluding the Armscor Medical Benefit Fund), the main contributors of the deviation for the year under review are the following:





Contributors to deviation

Personnel costs

The net under spending in personnel cost is due to freezing of vacancies, except for those deemed critical for the sustainability of the organisation.

Allocation for operating expenditure/ Gross contributions

Allocation for operating expenditure is received to defray the cost of the Group's operations for the year under review to ensure that Armscor's contracted service delivery to the DOD, in terms of the SLA, is effectively and efficiently met. The variance on Dockyard sales was as the result of the non-availability of the dry docking facilities for commercial clients. The transfer payment of R858,7 million was less than anticipated by R12,7 million as the SA Navy reduced their allocation to the Dockyard. In addition, R25 million was recognised as a transfer payment by the Dockyard from deferred income.

Other operating expenses/ depreciation/computer services

The cost savings measures implemented during the year and the net settlement gain on medical benefit fund resulted in reduced operating costs as compared to the budget.

Maintenance

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2016

		GROUP	
	NOTES	2016 Rm	2015 Rm
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	2	1 516,1	1 189,1
Investment property	3	72,9	110,0
Intangible assets	4	7,1	0,9
Investment in a joint venture	5	-	1,3
Financial instruments	15	129,1	747,7
		1 725,2	**2 049,0**
CURRENT ASSETS			
Non-current assets held for disposal	2	0,5	0,1
Inventories	7	7,5	8,1
Trade and other receivables	8	199,9	100,7
Cash and short term deposits	9	865,8	877,5
Taxation	14	25,9	2,1
		1 099,6	**988,5**
TOTAL ASSETS		**2 824,8**	**3 037,5**
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Ordinary share capital	10	75,0	75,0
Non-distributable reserves		2 117,2	1,920,0
ORDINARY SHAREHOLDERS INTEREST		**2 192,2**	**1 995,0**
LIABILITIES			
NON-CURRENT LIABILITIES			
Post-retirement medical benefit liability	6	126,7	571,4
Deferred tax	14	5,0	17,8
Deferred income	11	54,3	69,4
		186,0	**658,6**
CURRENT LIABILITIES			
Trade and other payables	12	281,8	214,5
Provisions	13	117,9	109,9
Deferred income	11	46,9	59,5
		446,6	**383,9**
TOTAL LIABILITIES		**632,6**	**1 042,5**
TOTAL EQUITY AND LIABILITIES		**2 824,8**	**3 037,5**

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2016

		GROUP	
	NOTES	2016 Rm	2015 Rm
Revenue	16	370,1	400,5
Cost of sales	17	(109,4)	(139,2)
GROSS PROFIT	18	**260,7**	**261,3**
Other operating revenue	19	92,7	129,0
Allocation for operating expenditure (Government grant)	20	858,7	913,3
Operating expenses	21	(1 459,2)	(1 289,8)
OPERATING (LOSS)/PROFIT	22	**(247,1)**	**13,8**
Investment revenue	23	73,7	82,3
Share of (loss)/profit in joint venture	5	(0,3)	5,7
(LOSS)/PROFIT BEFORE TAX		**(173,7)**	**101,8**
Taxation	14	13,0	(17,6)
(LOSS)/PROFIT AFTER TAX	24	**(160,7)**	**84,2**
OTHER COMPREHENSIVE INCOME			
Gains on property revaluation		360,8	-
TOTAL COMPREHENSIVE INCOME		**200,1**	**84,2**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2016

	SHARE CAPITAL	MARKETING PROMOTION RESERVE	CAPITAL AND BUILDING MAINTENANCE RESERVE	COMPUTER UPGRADING RESERVE	INTERNAL INSURANCE RESERVE	REVALUATION RESERVE	GENERAL RESERVE	TOTAL EQUITY
	Rm	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**
GROUP								
Balance at 31 March 2014	**75,0**	**12,3**	**22,6**	**15,0**	**20,0**	**1 083,7**	**679,4**	**1 908,0**
Changes in equity								
Total comprehensive income for the year	-	-	-	-	-	-	84,2	84,2
Transfer to/(from) reserves	-	(0,2)	-	-	(1,1)	-	4,1	2,8
Total changes	-	(0,2)	-	-	(1,1)	-	88,3	87,0
Balance at 31 March 2015	**75,0**	**12,1**	**22,6**	**15,0**	**18,9**	**1 083,7**	**767,7**	**1 995,0**
Changes in equity								
Loss after tax	-	-	-	-	-	-	(160,7)	(160,7)
Revaluation gain	-	-	-	-	-	360,8	-	360,8
Transfer to/(from) reserves	-	(0,1)	-	-	(4,2)	-	1,5	(2,8)
Total changes	-	(0,1)	-	-	(4,2)	360,8	(159,2)	197,3
Balance at 31 March 2016	**75,0**	**12,0**	**22,6**	**15,0**	**14,7**	**1 444,5**	**608,5**	**2 192,2**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2016

		GROUP	
	NOTES	2016 Rm	2015 Rm
OPERATING ACTIVITIES			
Cash receipts from customers		1 181,9	1 386,9
Cash paid to suppliers and employees		(1 828,4)	(1 237,6)
Cash generated from operations	25	(646,5)	149,3
Income tax paid		(23,7)	(41,2)
Interest income		73,7	79,6
Finance costs		(0,8)	(1,9)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**(597,3)**	**185,8**
INVESTING ACTIVITIES			
Purchase of property, plant & equipment	2, 4	(31,6)	(24,0)
Proceeds from sale of property, plant & equipment	2	0,2	-
Purchase of other intangible assets	4	(6,6)	-
Decrease in investments		620,3	5,0
Dividends received		3,3	11,7
NET CASH FLOWS USED (IN)/FROM INVESTING ACTIVITIES		**585,6**	**(7,3)**
TOTAL CASH MOVEMENT FOR THE YEAR		(11,7)	178,5
CASH AT THE BEGINNING OF THE YEAR		877,5	699,0
TOTAL CASH AT END OF THE YEAR	9	**865,8**	**877,5**

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2016

1. MANDATE

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

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 Department of Defence effectively, efficiently and economically.

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

1.1 Financial policy

Activities are financed as follows:

Armscor's operating funds

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

Operating capital and fixed capital of the Group

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

Procurement of armaments

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

1.2 Accounting policy

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

1.3 Consolidation

Basis of consolidation

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

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

1.3.1 Significant accounting judgements, estimates and assumptions

Judgements

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

a) Pension and other post-employment benefits

The cost of defined post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases,

mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

b) Impairment of financial assets

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

c) Impairment of non-financial assets

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

d) Provisions

Management determined an estimate based on the best available information.

1.3.2 Property, plant and equipment

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

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

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

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

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

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

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

a) Land and buildings

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

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

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

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

b) Plant and equipment

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

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

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

1.3.3 Investment property

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

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

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

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

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

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

1.3.4 Intangible assets

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

a) Patents

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

b) Computer software

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

1.3.5 Inventories

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

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

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

1.3.6 Non-distributable reserves

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

a) Capital and building maintenance reserve

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

b) Computer upgrading reserve

The purpose of this reserve is for the upgrading and 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 retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

1.3.7 Foreign currency conversion

Transactions and balances

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

At the end of the reporting period, foreign currency monetary items are translated using the closing rate. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period in which they arise.

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

1.3.8 Revenue recognition

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

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

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

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

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

Contract revenue comprises:

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

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

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

1.3.9 Other income

a) Interest income

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

b) Rental income

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

c) Government grant

Government grant is recognised when there is reasonable assurance that:

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

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

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

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

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

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

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

d) Dividend income

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

1.3.10 Insurance and risk management

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

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

1.3.11 Financial instruments

Recognition and measurement

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

Derecognition of financial assets and financial liabilities

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

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

Financial assets

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

Loans and receivables

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

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

a) Trade and other receivables

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

b) Cash and cash equivalents

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

c) Other loans

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

Offset

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

Financial liabilities

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

Financial guarantee contracts

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

a) Trade and other receivables

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

1.3.12 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the profit or loss, net of any reimbursement.

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

The Group has the following provisions at year end:

a) Performance remuneration

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

1.3.13 Leases

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

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

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

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

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

Operating leases – lessor

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

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

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

Operating leases – lessee

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

1.3.14 Impairment of tangible and intangible assets

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

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.3.15 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and which would have been avoided had reasonable care been exercised.

1.3.16 Share capital and equity

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

1.3.17 Employee benefits

a) Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

b) Defined contribution plans

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

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the Group's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

c) Retirement benefits

The Group contributes towards and operates the Armscor Defined Contribution Pension Fund and the Armscor Provident Fund, which offer benefits based on the contributions of and on behalf of every member, as well as on investment yields.

The Group also provides post-retirement health care benefits to its retirees. The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Valuations of these obligations are carried out by independent qualified actuaries. The cost of providing benefits under the defined benefits plan is determined using the projected unit credit actuarial valuation method.

Actuarial gains or losses in respect of defined benefit plans are recognised as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

- 10% of the present value of the defined benefit obligation at that date before deducting plan assets, and
- 10% of the fair value of any plan assets at that date.
- The amount recognised is the excess determined above, divided by the expected average remaining working lives of the employees participating in that plan.

1.3.18 Taxation

Current taxation

Current taxation comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the reporting date, and any adjustment of tax payable for the previous year.

Deferred taxation

Deferred taxation is provided using the financial position liability method, based on temporary differences.

Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date. Deferred tax is recognised in the income statement except to the extent that it relates to a transaction that is recorded directly in equity, or a business combination that is an acquisition. The effect on deferred tax of any changes in tax rates is recognised in the statement of comprehensive income, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.3.19 Reporting framework

Statements of Generally Accepted Accounting Practice were withdrawn by the Accounting Practices Board on 1 December 2012.

National Treasury instructed that those Government Business Enterprises that apply Statements of SA GAAP, as an interim measure, should continue to apply Statements of GAAP (as issued at 1 April 2012) until the Board has undertaken more extensive research to identify the most appropriate reporting framework.

The Accounting Standards Board (ASB) has subsequently issued Directive 12 in August 2015. This Directive gives guidance on the selection of an appropriate reporting framework by public entities. Paragraph 11 of directive 12 provides criteria for determining the appropriate reporting framework which will either be International Financial Reporting Standards (IFRS) or Generally Recognised Accounting Practice (GRAP). Paragraph 25 of the Directive prescribes that the application of an appropriate reporting framework is for periods commencing on or after 1 April 2018.

Statements of GAAP are drawn from International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), Interpretations issued by the International Financial Reporting Interpretations Committee (IFRICs and SICs). Section 56 of the Financial Management of Parliament Act (Act No 10 of 2009) requires that Parliament prepares its financial statements in accordance with standards of generally recognised accounting practice. ''Standards of generally recognised accounting practice'' in that Act means an accounting practice complying with the standards approved by the Minister of Finance on the advice of the Accounting Standards Board.

The effect of the APB not adopting any Standards or amendments after May 2011 means that the following pronouncements or amendments are not included in the GAAP Reporting Framework:

(a) IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* and IFRS 13 *Fair Value Measurement* and any consequential amendments to existing IFRSs or IASs as a result of issuing these IFRSs.

(b) IAS 27 *Separate Financial Statements* (issued in May 2011) and IAS 28 *Investments in Associates and Joint Ventures* (issued in May 2011).

(c) IAS 19 *Employee Benefits* as revised in June 2011.

(d) Amendments to existing pronouncements *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)* issued in June 2011.

(e) IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* issued in October 2011.

(f) Amendments to existing pronouncements *Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)* issued in December 2011.

(g) Amendments to existing pronouncements *Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)* issued in December 2011.

(h) Amendments to existing pronouncements *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)* issued in December 2011.

(i) Amendments to existing pronouncements *Government Loans (Amendments to IFRS 1)* issued in March 2012.

(j) *Annual Improvements to IFRSs (2009-2011 Cycle)* issued in May 2012.

2. PROPERTY, PLANT AND EQUIPMENT

	LAND	BUILDINGS	PLANT, MACHINERY & EQUIPMENT	OFFICE EQUIPMENT, FURNITURE & COMPUTERS	VEHICLES & VESSELS	TOTAL
	2016					
GROUP	Rm	Rm	Rm	Rm	Rm	Rm
Cost	429,7	972,8	122,4	159,9	60,4	1 745,2
Accumulated depreciation	-	(1,7)	(68,9)	(116,3)	(42,2)	(229,1)
Carrying value as at 31 March 2016	**429,7**	**971,1**	**53,5**	**43,6**	**18,2**	**1 516,1**
Current year movements:						
Balance at the beginning of the year	373,0	697,2	50,6	47,9	20,4	1 189,1
Additions	-	2,1	13,5	12,7	3,3	31,6
Assets held for sale	-	(0,5)	-	-	-	(0,5)
Disposals	-	-	(0,3)	(0,1)	(0,1)	(0,5)
Revaluation	56,7	304,1	-	-	-	360,8
Depreciation	-	(31,8)	(10,3)	(16,9)	(5,4)	(64,4)
Carrying value as at 31 March 2016	**429,7**	**971,1**	**53,5**	**43,6**	**18,2**	**1 516,1**

	2015					
GROUP	Rm	Rm	Rm	Rm	Rm	Rm
Cost	373,0	759,7	110,9	154,4	58,0	1 456,0
Accumulated depreciation	-	(59,8)	(60,3)	(106,5)	(37,6)	(264,2)
Accumulated impairment	-	(2,7)	-	-	-	(2,7)
Carrying value as at 31 March 2015	**373,0**	**697,2**	**50,6**	**47,9**	**20,4**	**1 189,1**
Current year movements:						
Balance at the beginning of the year	373,0	725,8	53,5	54,2	23,3	1 229,8
Additions	-	3,1	6,5	11,0	3,2	23,8
Disposals	-	-	(0,2)	(0,1)	-	(0,3)
Reclassifications	-	-	0,4	(0,4)	-	-
Depreciation	-	(31,7)	(9,6)	(16,8)	(6,1)	(64,2)
Carrying value as at 31 March 2015	**373,0**	**697,2**	**50,6**	**47,9**	**20,4**	**1 189,1**

	GROUP	
	2016	2015
2. PROPERTY, PLANT AND EQUIPMENT (continued)	Rm	Rm
Depreciation		
Gross depreciation	68,0	66,2
Less: Change in the estimated useful life	(3,6)	(2,0)
	64,4	**64,2**

In line with the requirements of IAS 16 the Group reviewed the useful life, residual values and method of depreciation for all assets still in use. Based on the latest available and reliable information there was a change in the estimated useful life of some assets, which resulted in a decrease in depreciation of R3,6 million (2015: R2,0 million decrease).

Other matters

Included in the Group's value of plant, machinery and equipment are assets at contractors with a cost of R3,9 million (2015: R4,7 million) that are fully depreciated. These assets are no longer in use.

Assets with a carrying amount of R0,5 million (2015: R0,1 million) at year end are held for disposal. The process of disposal is in place and will be disposed within the next 12 months.

The assets held for sale are residential properties held by Armscor Research and Development at Prieska, Northern Cape amounting to R0,5 million (2015: R0,1 million). These properties will be sold to potential buyers, with the lessees having the first option to buy.

Land and buildings were fair valued for the first time on 31 March 2013. Had these assets not been fair valued their carrying values would have been as follows:

Land : R12,7 million (2015: R11,6 million)
Buildings : R123,9 million (2015: R133,8 million)

Included in buildings is:

- IMT building erected on leasehold premises with a net book value of R52,9 million (2015: R42,1 million). The leasehold premises comprises a portion in extent 1,4475 ha of Erf 3779 in Simon's Town which is leased from the Department of Public Works.

- The Paardefontein building erected on land owned by the State with a net book value of R3,4 million (2015: R2,8 million). The premises comprises a portion in extent 51,3902 ha of portion 6 and 7 of the farm Paardefontein 282, registration division JR, City of Tshwane Metropolitan Municipality, which is registered in the name of the State.

- The fair value was determined by an independent sworn appraiser using current market values on 31 March 2016. The apprasier holds a recognised and relevant professional qualification and has recent experience in the locations and categories of the land and buildings being valued. The expert valuer used the Income Capitalised Approach and Comparable Sales Method as valuation methodologies.

3. INVESTMENT PROPERTY

GROUP	LAND 2016 Rm
Fair value	72,9
Fair value as at 31 March 2016	**72,9**
Balance at the beginning of the year	110,0
Fair value adjustment	(37,1)
Fair value as at 31 March 2016	**72,9**

GROUP	2015 Rm
Fair value	110,0
Fair value as at 31 March 2015	**110,0**
Balance at the beginning of the year	110,0
Fair value adjustment	-
Fair value as at 31 March 2015	**110,0**

The fair value was determined by an independent sworn appraiser using current market values on 31 March 2016. The appraiser holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The land was fair valued using the Comparable Sales Method.

Expenditure incurred relating to land amounted to R7 500 (2015: R16 586).

4. INTANGIBLE ASSETS

	PATENTS, TRADE-MARKS AND OTHER RIGHTS/SOFTWARE	TOTAL
	2016	
GROUP	**Rm**	**Rm**
Cost	11,5	11,5
Accumulated amortisation	(4,4)	(4,4)
Carrying value as at 31 March 2016	**7,1**	**7,1**
Current year movements:		
Balance at the beginning of the year	0,9	0,9
Additions	6,6	6,6
Amortisation	(0,4)	(0,4)
Carrying value as at 31 March 2016	**7,1**	**7,1**

	2015	
GROUP	**Rm**	**Rm**
Cost	5,2	5,2
Accumulated amortisation	(4,3)	(4,3)
Carrying value as at 31 March 2015	**0,9**	**0,9**
Current year movements:		
Balance at the beginning of the year	1,1	1,1
Additions	0,2	0,2
Amortisation	(0,4)	(0,4)
Carrying value as at 31 March 2015	**0,9**	**0,9**

5. INVESTMENT IN A JOINT VENTURE

Armscor entered into a 33,3% partnership on 30 August 1999 with the South African Aerospace, Maritime and Defence Industries Association (AMD) and the Commercial Aviation Association of Southern Africa (CAASA). The partnership's main business is hosting of the Africa Aerospace and Defence air show which take place biennially.

The reporting period of Africa Aerospace and Defence (AAD) is from 1 March to 28 February annually. The following amounts represent the assets, liabilities, income and expenses of AAD.

Summarised statement of financial position	2016 Rm	2015 Rm
Assets	6,1	7,0
Non-current assets	-	-
Current assets, including cash and cash equivalents of R5,6 million (2015: R6,0 million)	6,1	7,0
Liabilities	8,7	4,1
Current liabilities, including financial liabilities of R0,5 million (2015: R2,4 million)	8,7	4,1
Non-current liabilities	-	-
Equity	(2,6)	2,9
Group proportionate ownership	33,3%	33,3%
Group carrying amount of investment	-	1,0
Summarised statement of profit or loss		
Revenue	-	46,2
Cost of sales	-	(6,7)
Other income	0,4	0,4
Operating expenditure	(2,9)	(22,7)
Profit/(loss) for the year	(2,5)	17,2
Group proportionate ownership	33,3%	33,3%
Share of (loss)/profits	(0,8)	5,7
Dividends received for the year	0,9	4,4
Total investment in Joint Venture	-	1,3

There are no contingent liabilities relating to the Group's interest in the Joint Venture and no contingent liabilities in the Joint Venture itself.

6. RETIREMENT BENEFITS

6.1 Armscor Defined Contribution Pension Fund and Provident Fund

6.1.1 Pension and provident schemes

The Group contributes towards and operates the Armscor Defined Contribution Pension Fund and Provident Fund, which offer benefits based on the contributions by and made on behalf of every member as well as investment yields. At the time of establishment of the Armscor Defined Contribution Pension Fund, Armscor guaranteed pensioners that were transferred from the previous pension fund to the current pension fund to receive a pension at least equal to the pension received in terms of the previous fund. Armscor's liability in this regard for the remaining 6 members is R Nil (2015: R Nil) as the pensioners account in the pension fund is sufficiently funded.

	GROUP	
	2016 Rm	2015 Rm
The amount of contributions to the above scheme	62,7	58,7

6.1.2 Government Employees Pension Fund - Dockyard

The Group contributes towards the Government Employees Pension Fund, which offer benefits based on the contributions by and made on behalf of every member as well as investment yields.

	GROUP	
	2016 Rm	2015 Rm
The amount of contributions to the above scheme	12,4	11,7

6.2 Post-retirement medical benefits

The IAS19 valuation of the Group's post-employment benefits was carried out at 31 March 2016. Based on the latest projection performed at 31 March 2016 the present value of the obligation is R126,7 million (2015: R571,4 million). Based on the projection performed at 31 March 2016 financial assets held aside specifically for this purpose are in excess of the accrued liability. The financial assets held aside are R129,1 million (2015: R747,7 million). During 2015/16 financial year, Armscor settled some of its financial liability relating to the defined medical benefit, the amount settled was R605,6 million. This resulted in a decrease of both the financial liability and financial assets. Financial assets reduced by R618,6 million to R129,1 million (from R747,7 million in 2015).

Armscor does not have any further obligation for post-retirement medical benefits towards those members who accepted the settlement, except for the monthly allowances being paid to active members while remaining in Armscor's service.

GROUP	2016 Rm	2015 Rm	2014 Rm	2013 Rm	2012 Rm
Present value of funded obligations	121,9	718,6	607,5	569,5	467,4
Net obligation	121,9	718,6	607,5	569,5	467,4
Unrecognised actuarial gains/(losses)	4,8	(147,2)	(94,4)	(109,4)	(49,7)
Unrecognised past service gains	-	-	-	0,2	1,0
Net liability in statement of financial position	**126,7**	**571,4**	**513,1**	**460,3**	**418,7**

Figures above include Armscor Corporate, Armscor Research & Development and Armscor Dockyard

6.2.1 Post retirement medical benefits (Excluding Armscor Dockyard Personnel transferred from the South African Navy)

The Group currently provides post-retirement health care benefits to its retirees. The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Valuations of these obligations are carried out by independent qualified actuaries.

Reconciliation of the present value of the funded obligations (Group – excluding Dockyard)

	2016 Rm	2015 Rm
Opening balance	548,3	491,3
Current service cost (includes interest to year end)	7,2	19,3
Interest cost	21,7	53,3
Settlements	(605,6)	-
Expected employer benefit payments	(8,7)	(18,6)
Expected closing balance	(37,1)	545,3
Actuarial loss	129,5	3,0
Settlement loss	10,0	-
Actual closing balance	**102,4**	**548,3**

	GROUP	
	2016 Rm	2015 Rm
Reconciliation of the net liability in the statement of financial position and amounts recognised in profit/loss		
Opening balance	548,3	491,3
Expense recognised in employee remuneration costs	168,4	75,6
Employer benefit payments	(8,7)	(18,6)
Settlement	(605,6)	-
	102,4	**548,3**
Net benefit expense (recognised in employee remuneration costs)		
Current service cost	7,2	19,3
Interest cost	21,7	53,3
Actuarial loss recognised	129,5	3,0
Settlement loss recognised	10,0	-
	168,4	**75,6**

The main actuarial assumptions are:

	2016	2015
Discount rate	10,0%	8,50%
Health care cost inflation	8,8%	7,75%
CPI inflation	7,5%	6,25%
Average retirement age	60	60

A one percentage change in the assumed rate would have the following effects for the Group:

	Discount rate		
	Central Assumption %	-1%	+1%
Accrued Liability 31 March 2016 (Rm)	90,9	105,7	79,2
Current Service Cost + Interest Cost 2015/16 (Rm)	10,8	11,6	10,1
Sensitivity Results from Previous Valuation	%	%	%
Current Service Cost + Interest Cost 2014/15 (Rm)	81,2	90,9	73,6

6.2.2 Post-retirement medical benefits for Armscor Dockyard personnel transferred from the SA Navy

The Group also provides post-retirement health care benefits to the Dockyard retirees. The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Valuations of these obligations are carried out by independent qualified actuaries.

The IAS19 valuation of the Dockyard's post-employment benefits was carried out at 31 March 2016. This actuarial valuation of the employer's liability as at 31 March 2016 arises as a result of post-employment health care benefits enjoyed by former SA Naval Dockyard employees. Based on the projection performed at 31 March 2016 the cash held aside specifically for this purpose is in excess of the accrued liability. The cash held aside is R35,3 million (2015: R31,8 million).

	GROUP	
	2016 Rm	2015 Rm
The cash held aside specifically for this purpose at 31 March 2016 is in excess of the accrued liability and is summarised below:		
Present value of the unfunded obligation	24,2	23,1
Net obligation	24,2	23,1
Less: Cash received	(35,3)	(31,8)
Net (assets) as at 31 March 2016	**(11,1)**	**(8,7)**
A projection of results of the valuation as at 31 March 2016 to 31 March 2017 is set out below:		
Accrued liability as at 31 March 2016	24,2	23,0
Interest cost	3,0	1,8
Service cost (including interest to year end)	0,5	0,4
Actuarial loss recognised in profit or loss	0,4	-
Expected employer benefit payments	(1,8)	(1,0)
Projected accrued liability as at 31 March 2017	**26,3**	**24,2**

	GROUP	
	2016 Rm	2015 Rm
Reconciliation of present value of the unfunded obligation		
Opening balance	23,1	21,8
Current service cost	0,4	0,4
Interest cost	1,8	1,7
Actuarial loss	6,6	-
Expected employer benefit payments	(1,0)	(0,8)
Closing balance	**30,9**	**23,1**
Reconciliation of the present value of the unfunded obligation with the liability recognised in the Statement of financial position		
Present value of unfunded obligation	35,8	21,8
Unrecognised actuarial (losses)/gains	(11,6)	1,3
	24,2	**23,1**
Net benefit expense (recognised in employee remuneration)		
Current service cost	0,4	0,4
Interest cost	1,8	1,7
	2,2	**2,1**

The main actuarial assumptions are:

	2016	2015
Discount rate	10,0%	8,50%
Health care cost inflation	9,0%	7,75%
CPI inflation	7,5%	6,25%
Average retirement age	65	65

A one percentage change in the assumed rate would have the following effects for the Group:

	Discount rate		
	Central Assumption %	-1%	+1%
Accrued Liability 31 March 2016 (Rm)	21,8	24,5	19,5
Current Service Cost + Interest Cost 2015/16 (Rm)	2,2	2,3	2,2
Sensitivity Results from Previous Valuation	9,25%	-1%	+1%
Current Service Cost + Interest Cost 2014/15 (Rm)	2,1	1,9	2,4

	GROUP	
	2016 Rm	2015 Rm
6.2.3. Summary of defined medical benefit expense for all funds		
Defined medical benefit expense (post-retirement) included in employee cost:		
Current service cost	7,6	19,7
Interest cost	23,5	55,0
Actuarial loss	129,5	3,0
Settlement loss	9,9	-
	170,5	**77,7**
7. INVENTORIES		
Raw materials, components	1,2	1,1
Work in progress	1,4	2,5
Consumables	4,1	3,7
Finished goods	0,8	0,8
	7,5	**8,1**

The amount of inventories written off during the year is R81 889 (2015: R Nil), inventories expensed during the year is R14,0 million (2015: R12,8 million).

8. TRADE AND OTHER RECEIVABLES		
Trade receivables	75,4	37,6
Trade receivables - related parties	53,7	28,3
Total trade receivables	129,1	65,9
Other receivables	54,8	21,2
Other receivables - related parties	12,5	12,7
Personnel loans	-	0,1
Interest receivable on investments	3,5	0,8
	199,9	**100,7**
As at 31 March 2016 the ageing analysis of trade receivables was as follows:		
Neither past due nor impaired:	68,2	45,2
30 - 60 days	28,5	15,1
60 - 90 days	10,8	0,8
Past due but not impaired:		
90 - 120 days	11,5	1,3
120 days and older	10,1	3,5
	129,1	**65,9**

Neither past due nor impaired trade receivables relates to goods and services provided to debtors. Management has made an assesment and they concluded that there are no indications of impairment.

	GROUP	
	2016 Rm	2015 Rm
Movement in the allowance for doubtful debts:		
Balance at the beginning of the year	153,9	121,8
Amount written off during the year	(1,7)	-
Impairment losses recognised on receivables	35,1	34,7
Amounts recovered during the year	-	(2,6)
Balance at the end of the year	**187,3**	**153,9**

Terms and conditions of the above financial assets:

Trade and other receivables are non-interest bearing and are generally on thirty to ninety days terms.

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

For terms and conditions relating to related party receivables, refer to related party disclosure note.

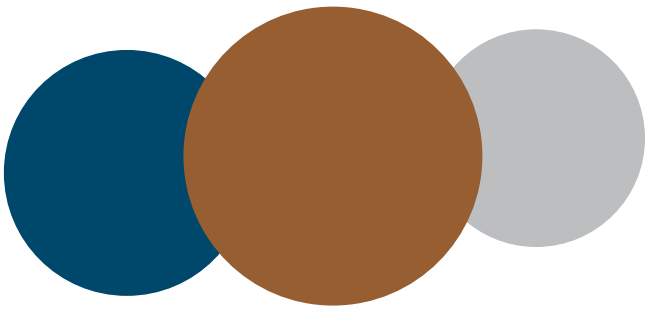
9. CASH AND SHORT-TERM DEPOSITS

Cash and cash equivalents consists of:		
Cash at banks and in hand	65,8	127,5
Short-term deposits	800,0	750,0
	865,8	**877,5**

Included in cash and short-term deposits is an amount of R14,7 million (2015: R16,2 million) in respect of cash allocated to the insurance reserve.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

Cash reserves are earmarked for upgrading of systems, capital expenditure approved but not yet contracted and other maintenance requirements.



	GROUP	
	2016 Rm	2015 Rm
10. ORDINARY SHARE CAPITAL		
Authorised		
• 1 000 000 000 ordinary shares of R1 each	1 000,0	1 000,0
Issued		
• Ordinary	75,0	75,0

Share Capital is under the control of the Executive Authority.

11. DEFERRED INCOME		
Deferred income relates to cash, stock and assets received from the Department of Defence, of which the recognition of the income needs to be aligned with the incurring of the expenditure, or the fulfillment of the conditions of receipt.		
Non-current liabilities	54,3	69,4
Current liabilities	46,9	59,5
	101,2	**128,9**
12. TRADE AND OTHER PAYABLES		
Trade payables	41,2	49,7
Trade payables - related parties	87,5	55,4
Other payables	128,9	85,1
Other payables - related parties	24,2	24,3
	281,8	**214,5**
Trade payables	128,7	85,8
Other payables	153,1	124,9
Current	281,8	210,7
Trade payables		
> 30 Days	-	-
> 60 Days	-	3,8
	281,8	**214,5**

Terms and conditions of the above financial liabilities:

Trade payables are non-interest bearing and are normally settled on thirty day terms.

For terms and conditions relating to related parties, refer to related party disclosure note.

13. PROVISIONS

RECONCILIATION OF PROVISIONS

	OPENING BALANCE	ADDITIONS	UTILISED DURING THE YEAR	TOTAL
2016				
GROUP	**Rm**	**Rm**	**Rm**	**Rm**
Provision for leave	56,7	28,4	(24,7)	60,4
Provision for performance remuneration	53,2	56,2	(51,9)	57,5
	109,9	**84,6**	**(76,6)**	**117,9**
2015				
Provision for leave	56,2	25,9	(25,4)	56,7
Provision for performance remuneration	48,6	52,9	(48,3)	53,2
	104,8	**78,8**	**(73,7)**	**109,9**

Performance remuneration for 2015/2016 will be paid upon completion of the performance evaluation process.

	GROUP	
	2016 Rm	2015 Rm
14. DEFERRED TAXATION		
The deferred taxation liability is attributable to the following:		
Fair value adjustment on investments	5,0	17,8
The movement between the balances of deferred taxation at the beginning of the year and the end of the year can be analysed as follows:		
At the beginning of the year	17,8	38,2
Current year movement on fair value adjustment	(12,8)	(20,4)
- Current year movement on fair value adjustment	(12,8)	(20,4)
Closing balance	**5,0**	**17,8**
NORMAL TAXATION		
Current tax	(0,2)	38,0
- Current year	-	35,2
- Prior year	(0,2)	2,8
Deferred tax	(12,8)	(20,4)
- Current year movement on fair value adjustment	(12,8)	(20,4)
	(13,0)	**17,6**
Reconciliation of tax expense		
Accounting profit before income tax	10,4	74,8
Non-taxable income	(64,2)	(155,1)
Non-deductible expenditure	60,8	89,6
Net capital gain	35,2	78,8
Distribution (taxable in hands of the beneficiary)	(42,2)	-
Taxable income	**-**	**88,1**
Current income tax at 41% (2015: 40%)	-	35,2
Total normal income tax	**-**	**35,2**

	GROUP	
	2016 Rm	2015 Rm
Reconciliation of income tax (receivable)		
Outstanding at beginning of year	(2,1)	1,1
Normal income tax for current year	(0,2)	38,0
Income tax paid during the year	(23,7)	(41,2)
Penalties and interest levied by SARS	0,1	-
Income tax (receivable) at the end of the year	**(25,9)**	**(2,1)**
	%	%
Reconciliation of income tax rate		
Current year's charge as a percentage of income before taxation	-	47,1
Non taxable income	252,8	82,9
Non deductible expenditure	(239,5)	(47,9)
Capital gains	(138,6)	(42,1)
Distribution taxable in hands of the beneficiary	166,3	-
Standard income tax rate	**41,0**	**40,0**

Taxation disclosed above relates to tax (receivable)/payable by the Armscor Medical Benefit Fund as Armscor is exempted from paying income tax.

15. FINANCIAL INSTRUMENTS

15.1 Introduction

The Group's financial instruments consist of cash and cash equivalents, accounts receivable, investments and accounts payable, which arise directly from its operations.

The principle market risks to which the Group is exposed through financial instruments are:

- Foreign exchange transactions
- Interest rates
- Credit risk
- Liquidity risk
- Investment risk

	2016		2015	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	Rm	Rm	Rm	Rm
15.2 Category analysis of financial instruments				
Assets				
Loans and receivables	1 065,7	1 065,7	978,2	978,2
Trade and other receivables	199,9	199,9	100,7	100,7
Cash and cash equivalents	815,8	815,8	829,5	829,5
Cash allocated to insurance reserve	14,7	14,7	16,2	16,2
Cash allocated to Dockyard post-retirement benefit	35,3	35,3	31,8	31,8
Designated at fair value through profit and loss	129,1	108,4	747,7	676,2
Government and other bonds	17,9	17,0	39,4	38,9
Shares - listed	56,9	46,2	184,6	139,3
Deposits at banking institutions	38,1	38,1	473,7	473,7
International investments	16,2	7,1	50,0	24,3
	1 194,8	1 174,1	1 725,9	1 654,4
Liabilities	(281,8)	(281,8)	(214,5)	(214,5)
Trade and other payables	(281,8)	(281,8)	(214,5)	(214,5)
	913,0	**892,3**	**1 511,4**	**1 439,9**

The carrying amounts for cash, cash equivalents, trade and other receivables and current liabiities approximate fair value due to the short-term nature of these instruments.

15.3 Interest rate management

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short term loan and cash and cash equivalents. In the ordinary course of business, the Group receives cash from the transfer payment to fund its operations, as well as to fund working capital and capital expenditure requirements. This cash is managed to ensure surplus funds are invested in a manner to achieve maximum returns while minimising risk.

15.4 Credit risk management

The Group only deposits cash surpluses with major banks of high quality credit standing.

Trade receivables comprise a widespread customer base. The granting of credit is controlled by well-established criteria, which are reviewed and updated on an ongoing basis.

At year end, the Group did not consider there to be any significant concentration of credit risk which has not been insured or adequately provided for. With respect to credit risk arising from the other financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

15.5 Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of call accounts. The Group maintains a sufficient level of liquidity to be able to meet all its obligations. The Group has no overdraft facility but has other facilities which include guarantees and letters of credit.

15.6 Capital management

Capital includes equity attributable to the equity holders. The primary objective of the Group's capital management is to ensure that it maintains strong credit ratings and healthy capital ratios in order to support its business. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. No changes were made in the objective, policies or processes for the year ended 31 March 2016. The Group does not have external imposed capital requirements. The Group does not make use of capital from outside providers other than trade and other payables and have sufficient cash and cash equivalents to cover its net debt.

	GROUP	
	2016 Rm	2015 Rm
Trade and other payables	(281,8)	(214,5)
Cash and cash equivalents	865,8	877,5

15.7 Interest rate risk

The Group's exposure to the risk in market interest rates relates primarily to interest received on call accounts and fixed deposits.

Interest rate risk (sensitivity analysis)

The following table demonstrates the sensitivity to a change in interest rates with all other variables held constant.

	Increase/decrease in basis points	Increase/decrease in surplus for the year and equity
2016	± 50	± R4,5 million
	± 25	± R2,3 million
2015	± 50	± R4,6 million
	± 25	± R2,3 million

15.8 Investment risk

Investments in equities are valued at fair value and therefore susceptible to market fluctuations.

Investments are managed with the aim of maximising the Group's returns while limiting risk to acceptable levels.

Continuous monitoring takes place to ensure that appropriate assets are held where the liabilities are dependent upon the performance of the investment portfolio and that a suitable match of assets exists for all liabilities.

15.9 Foreign currency risk

The Group does not hedge foreign exchange fluctuations.

Foreign currency risk is the risk that the value of an instrument will fluctuate in South African Rands due to changes in foreign exchange rates.

The Group is exposed to both foreign currency risks on investments that are denominated in a currency other than the respective functional currency of the Group and transactional currency exposures. The currency giving rise to the risk is primarily US dollars (USD).

These investments are monitored to ensure that the exposure to foreign currency risk is maintained within internal diversification guidelines.

	GROUP	
	2016 Rm	2015 Rm
16. REVENUE		
Sale of goods - Research & Development	15,1	13,1
Services revenue - Armscor Corporate	10,9	5,7
Services revenue - Armscor Dockyard	0,2	1,4
Services revenue - Research & Development	343,7	361,2
Contributions - Medical Benefit Fund	0,2	19,1
	370,1	**400,5**
17. COST OF SALES		
Sale of goods		
Sale of goods - Research & Development	8,4	6,2
Rendering of services		
Services revenue - Research & Development	101,0	133,0
Total		
Sale of goods	8,4	6,2
Rendering of services	101,0	133,0
	109,4	**139,2**

	GROUP	
	2016 Rm	2015 Rm
18. GROSS PROFIT		
Armscor Corporate *	10,9	5,7
Armscor Dockyard	0,2	1,4
Research & Development	249,4	235,1
Medical Benefit Fund	0,2	19,1
	260,7	**261,3**
19. OTHER OPERATING REVENUE		
Armscor Corporate rental income*	55,6	50,5
Armscor Corporate other income*	11,3	9,9
Research & Development other income	12,3	8,5
Armscor Dockyard	0,4	0,2
Armscor Medical Benefit Fund dividend income	2,4	7,3
Armscor Medical Benefit Fund profit on investment sold	61,5	128,6
Armscor Medical Benefit Fund fair value adjustment on investments	(50,8)	(76,0)
	92,7	**129,0**
20. ALLOCATION FOR OPERATING EXPENDITURE (GOVERNMENT GRANT)		
Transfer payment - Armscor Corporate *	684,0	719,9
Transfer payment - Armscor Dockyard	174,7	193,4
	858,7	**913,3**
21. OPERATING EXPENSES		
Armscor Corporate *	440,1	763,6
Armscor Dockyard	209,8	196,9
Research & Development	186,6	296,6
Armscor Medical Benefit Fund	622,7	30,0
	1 459,2	**1 287,1**

* Armscor Corporate relates to Head Office and AB Logistics results.

	GROUP	
	2016 Rm	2015 Rm
22. (LOSS)/PROFIT FROM OPERATIONS		
Armscor Corporate	321,7	22,4
Armscor Dockyard	(34,5)	(1,9)
Research & Development	75,1	(53,0)
Armscor Medical Benefit Fund	(609,4)	49,0
	(247,1)	**16,5**
Is arrived at after taking into account:		
Operating lease charges		
Premises		
- Contractual amounts	2,2	3,7
Motor vehicles		
- Contractual amounts	0,3	0,2
- Contingent amounts	0,2	0,1
Equipment		
- Contractual amounts	0,9	1,8
- Contingent amounts	1,8	0,2
Loss on sale of property, plant and equipment	0,3	0,4
Loss on investment sold	9,0	12,2
Impairment losses recognised on receivables	35,1	34,7
Profit on exchange rate differences	(6,2)	(2,3)
Amortisation on intangible assets	0,4	0,4
Impairment and write-off of property, plant and equipment	0,5	-
Auditors remuneration	3,0	4,5
Investment expenses	0,8	2,0
Depreciation on property, plant and equipment	64,5	64,2
Employee costs	977,9	914,5
Net losses on defined benefit settlements	139,5	-
Post-retirement benefits (included in employee cost)	62,7	70,4
Direct employee cost reflected under cost of sales	40,4	45,4

	GROUP	
	2016 Rm	2015 Rm
23. INVESTMENT REVENUE		
Finance income - Armscor Corporate	59,2	56,6
Finance income - Armscor Medical Benefit Fund	14,5	25,7
	73,7	**82,3**
24. (LOSS)/PROFIT AFTER TAX		
After elimination of inter-transactions		
Armscor Corporate	380,6	82,0
Armscor Dockyard	(34,5)	(1,9)
Research & Development	75,1	(53,0)
Armscor Medical Benefit Fund	(581,9)	57,1
	(160,7)	**84,2**
The following figures are divisional contributions before elimination of inter-divisional transactions, revaluation of assets and excluding the loan write-off		
Armscor Corporate	325,6	10,4
Armscor Dockyard	(28,6)	3,6
Research & Development	125,4	11,6
Armscor Medical Benefit Fund	(581,9)	57,1
	159,5	**82,7**

Inter-divisional transactions include office rental, service level agreement and transfer payments.

The effect of the Armscor Corporate pure operating loss before adjusting for Medical Benefit settlement is as follows:

Net profit	325,6
Armscor Medical Benefit settlement	(334,4)
Net settlement impact	(8,8)
Less: Fair value adjustment to investment property	(37,1)
Operating loss	**(45,9)**

	GROUP	
	2016 Rm	2015 Rm
25. CASH GENERATED FROM OPERATIONS		
Profit before taxation	(173,7)	101,8
Adjustments for:		
Depreciation and amortisation	64,9	64,6
Dividends received	(3,3)	(11,7)
Impairment and assets written off	0,4	-
Gain on investment sold	-	(128,6)
Fair value adjustments	88,0	76,1
Share of loss/(profit) in joint venture	1,2	(1,3)
(Profit)/Loss on sale of assets	(61,6)	0,3
Loss on investment sold	9,8	14,3
Finance income	(73,7)	(79,6)
Movements in retirement liabilities	(444,7)	58,2
Movements in provisions	8,0	5,1
Changes in working capital:		
Trade and other receivables	(100,2)	17,0
Inventories	0,6	21,2
Trade and other payables	65,6	61,8
Deferred income	(27,8)	(49,9)
	(646,5)	**149,3**

26. CONTRACTUAL LIABILITIES

Projected outstanding commitments in respect of orders placed for expected deliveries.	**200,4**	**199,8**

Contractual commitments which may arise out of these contracts are covered in full by means of financial authorisations. In other cases cover is obtained by means of back-to-back orders amounting to R175,0 million (2015: R174,4 million).

	GROUP	
	2016 Rm	2015 Rm
27. CAPITAL COMMITMENTS		
Authorised capital expenditure		
Capital expenditure approved but not yet contracted		
Property, plant and equipment	84,1	54,9

This committed expenditure relates to plant and equipment and will be financed by retained surpluses, existing cash resources and funds internally generated.

28. OPERATING LEASE COMMITMENTS – GROUP AS LESSEE AND LESSOR

Lessee disclosure

The Group has entered into operational leases on certain motor vehicles and items of machinery and equipment. Most of the leases have expired and are running on a month to month basis. The leases that haven't expired have lease terms between one and twenty four months remaining. There are no restrictions placed upon the lessee by entering into these leases. The portion of rental paid during the year which relates to contingent rentals is R0,4 million (2015: R0,3 million).

Future minimum rentals payable under non-cancellable operating leases as at 31 March 2016 are as follows:

	GROUP	
	2016 Rm	2015 Rm
Within one year	1,0	0,9
After one year but not more than five years	1,4	1,1
	2,4	2,0

Lessor disclosure

The Group entered into operating lease in regards to office space and parking. The lease has expired and is on a month to month basis. The Group is in a process of entering into a new lease agreement with the existing tenant.

29. CONTINGENT LIABILITIES

Guarantees

Bank guarantees have been issued for Armscor in favour of a local contractor amounting to R0,2 million (2015: R7,0 million) and to a foreign contractor amounting to R30,2 million (USD 2,0 million [2015: R34,3 million USD 2,8 million]) for an advance payment received.

Bank guarantees have been issued on behalf of Armscor in favour of the South African Revenue Services: Customs and Excise and other creditors amounting to R8,6 million (2015: R9,1 million) with regard to local guarantees.

Alkantpan

At 31 March 2016 the Group had a contingent liability in respect of rehabilitation of the test range at Alkantpan.

In terms of the National Environmental Management Act (Act 107 of 1998), section 28 (1) which came into effect on 29 January 1999, Alkantpan must take reasonable steps to avoid, stop or minimize degradation of the environment. Certain options were investigated and, as no intention currently exist to cease activities at Alkantpan because Alkantpan is regarded as a strategic facility which is partially funded by the Department of Defence, Alkantpan has elected to manage the range in compliance with the Act and to continue with its day to day clearing actions.

A steering committee was formed between Alkantpan and the Department of Tourism, Environment and Conservation of which the first meeting took place on 5 September 2006. It was confirmed at this meeting that the committee is to guide and advise Alkantpan on the environmental way forward and to ensure legislative compliance to the Act.

Meetings are scheduled to monitor the process and provide feedback on the progress. The last meeting of the Alkantpan Environmental and Conservation Steering Committee was held on 12 August 2013. No new issues or risks were reported at the meeting held and it was reported that the current measures in place is sufficient to manage the range in compliance with the Act.

The cost incurred for rehabilitating the site during the period under review was an amount of R2 352 421 (2015: R2 330 098).

30. INFORMATION REQUIRED IN TERMS OF SECTION 55(2) OF THE PUBLIC FINANCE MANAGEMENT ACT

An amount of R1 667 872 (2015: R890) relating to unrecoverable debts was written off during the year.

Fruitless and wasteful expenditure amounting to R823 (2015: R790) was incurred as a result of interest paid on late payments.

Armscor applied a 25% Black equity selection criterion as a requirement, in accordance with the supply chain policy of the Group. Armscor engaged extensively with National Treasury on this matter, which culminated in an application made to National Treasury for exemption from the Preferential Procurement Policy Framework Act (PPPFA), 2000 and the Procurement Regulations, 2011. The application of this principle was stopped from all tenders published from 1 September 2014. However, as this selection criterion was deemed to be in conflict with the PPPFA, the total value of contracts placed of R13,2 million (2015: R34,5 million) while applying this principle, is deemed to be irregular expenditure.

Reconciliation of irregular expenditure

	GROUP	
	2016 Rm	2015 Rm
Opening balance	103,0	68,5
Irregular expenditure - relating to current year	13,2	34,5
Less: Amounts condoned by National Treasury	(116,2)	-
	-	103,0

31. DIRECTORS'/EXECUTIVE MEMBERS' EMOLUMENTS

	Notes	FEES AND COMMITTEE REMUNERATION	BASIC SALARY	OTHER BENEFITS	ALLOWANCES	RETIREMENT AND OTHER CONTRIBUTIONS	TOTAL
				9	10	11	
		R	R	R	R	R	R
31 MARCH 2016							
Directors' Emoluments							
Executive Directors							
JG Grobler		-	1 458 963	975 745	113 388	287 842	2 835 938
JS Mkwanazi	2	-	161 092	-	24 029	26 600	211 721
KPE Wakeford	2	-	2 339 799	-	137 500	274 422	2 751 721
Subtotal		-	**3 959 854**	**975 745**	**274 917**	**588 864**	**5 799 380**
Non-Executive Directors							
31 MARCH 2016							
Adv S Baloyi	3,16	45 750	-	-	-	-	45 750
Adv VLA de la Hunt	3	315 300	-	-	-	-	315 300
Dr MB Khanyile	3	433 125	-	-	-	-	433 125
BMF Mobu	3,13	2 159	-	-	-	-	2 159
Vice Admiral (Ret) RJ Mudimu	3	1 281 875	-	-	-	-	1 281 875
T Skweyiya	3	633 800	-	-	-	-	633 800
NM Tyibilika	3	332 900	-	-	-	-	332 900
RM Vokwana	3	319 750	-	-	-	-	319 750
Subtotal		**3 364 659**	**-**	**-**	**-**	**-**	**3 364 659**
Total 31 March 2016		**3 364 659**	**3 959 854**	**975 745**	**274 917**	**588 864**	**9 164 039**

31. DIRECTORS'/EXECUTIVE MEMBERS' EMOLUMENTS

	Notes	FEES AND COMMITTEE REMUNERATION	BASIC SALARY	OTHER BENEFITS	ALLOWANCES	RETIREMENT AND OTHER CONTRIBUTIONS	TOTAL
				9	10	11	
		R	R	R	R	R	R
31 MARCH 2015							
JG Grobler		-	1 357 893	337 756	103 404	257 131	2 056 184
JS Mkwanazi		-	1 899 369	443 466	284 977	310 254	2 938 066
Subtotal		**-**	**3 257 262**	**781 222**	**388 381**	**567 385**	**4 994 250**
31 MARCH 2015							
EL Borole	4	20 373	-	-	-	-	20 373
Adv S Baloyi	3	41 104	-	-	-	-	41 104
Adv VLA de la Hunt	3	68 185	-	-	-	-	68 185
Dr PP Dyantyi	4	20 373	-	-	-	-	20 373
Dr JL Job	4	17 111	-	-	-	-	17 111
Dr MB Khanyile	3	81 513	-	-	-	-	81 513
Dr RR Mgijima	4	17 111	-	-	-	-	17 111
BMF Mobu	3,13	66 349	-	-	-	-	66 349
LW Mosiako	4	23 635	-	-	-	-	23 635
SA Msibi	4	20 373	-	-	-	-	20 373
Vice Admiral (Ret) RJ Mudimu	3	138 218	-	-	-	-	138 218
T Skweyiya	3	165 796	-	-	-	-	165 796
NM Tyibilika	3	77 773	-	-	-	-	77 773
RM Vokwana	3	75 461	-	-	-	-	75 461
Subtotal		833 375	-	-	-	-	833 375
Total 31 March 2015		**833 375**	**3 257 262**	**781 222**	**388 381**	**567 385**	**5 827 625**

	Notes	FEES AND COMMITTEE REMUNERATION	BASIC SALARY	OTHER BENEFITS	ALLOWANCES	RETIREMENT AND OTHER CONTRIBUTIONS	TOTAL
				9	10	11	
		R	R	R	R	R	R
EXECUTIVE COMMITTEE EMOLUMENTS							
Executive Members							
31 MARCH 2016							
TT Goduka		-	1 384 575	1 010 757	144 275	233 912	2 773 519
D Griesel	5	-	100 505	65 267	25 429	18 469	209 670
SP Mbada		-	1 309 551	651 514	180 900	222 637	2 364 602
JL Mzili		-	1 205 889	212 290	131 604	188 389	1 738 172
CVV Ramphele		-	1 125 777	204 308	159 612	235 430	1 725 127
NM Mabaso	14	-	1 267 116	82 535	11 604	189 717	1 550 972
Dr N Mkaza	7	-	236 420	-	1 934	35 354	273 708
JS Mkwanazi	2	-	1 875 980	594 601	82 877	306 719	2 860 177
GO Radebe	8	-	564 480	177 787	11 056	107 214	860 537
TC Raman	6	-	1 099 097	1 031 152	105 243	201 297	2 436 789
TOTAL		**-**	**10 169 390**	**4 030 211**	**854 534**	**1 739 138**	**16 793 273**
Non-Executive Audit Committee Member not member of Board of Directors							
31 MARCH 2016							
L Kuse	17	32 144	-	-	-	-	32 144
TOTAL		**32 144**	**-**	**-**	**-**	**-**	**32 144**
31 MARCH 2015							
TT Goduka		-	1 286 364	308 773	133 932	217 734	1 946 803
D Griesel		-	1 183 209	225 567	308 824	215 171	1 932 771
SP Mbada		-	1 213 917	273 946	169 452	224 075	1 881 390
JL Mzili		-	1 119 480	205 525	131 604	175 731	1 632 340
CVV Ramphele		-	1 042 200	230 254	159 612	218 456	1 650 522
NM Mabaso	14	-	200 794	-	1 934	30 261	232 989
TC Raman	6	-	1 203 249	338 016	111 780	226 561	1 879 606
TOTAL		**-**	**7 249 213**	**1 582 081**	**1 017 138**	**1 307 989**	**11 156 421**
Non-Executive Audit Committee Member not member of Board of Directors							
31 MARCH 2015							
RD Marule	4	3 262					3 262
TOTAL		**3 262**	**-**	**-**	**-**	**-**	**3 262**

Information applicable to note 31

1. On 14 August 2013 the Minister of Defence and Military Veterans informed the Armscor Board of Directors of her decision to terminate the services of both the Chairperson and Deputy Chairperson. Subsequent to an appeal they were reinstated on 18 September 2013 and remunerated. When the Minister of Defence and Military Veterans lodged an appeal the reinstatement was suspended and the suspension was upheld by the court.

2. Mr JS Mkwanazi was Acting Chief Executive Officer from 19 August 2009 to 30 April 2015; thereafter he resumed his position as Executive Committee member. Mr KPE Wakeford was appointed on contract as Chief Executive Officer from 1 May 2015.

3. On 1 May 2014 the Minister of Defence and Military Veterans appointed a new Board of Directors:
   * Chairperson of the Board - Vice Admiral (Ret) RJ Mudimu
   * Deputy Chairperson of the Board - Ambassador T Skweyiya
   * Non-Executive Director and Chairperson of Acquisition Committee of the Board - Mr MBF Mobu
   * Non-Executive Director and Chairperson of the Audit and Risk Committee of the Board - Dr M Khanyile
   * Non-Executive Director and Chairperson of the Human Resources, Social and Ethics Committee of the Board - Adv VLA de la Hunt
   * Non-Executive Director - Mr RM Vokwana
   * Non-Executive Director - Adv S Baloyi
   * Non-Executive Director and Chairperson of the Technology and Industry Support Committee of the Board - Mr NM Tyibilika

4. Term as Board of Directors members expired 30 April 2014.
5. Mr D Griesel was Acting General Manager from 19 August 2009 to 30 April 2015, thereafter resumed his position as Assistant General Manager: Acquisition.
6. Appointed as Executive Committee member (Acting General Manager: Research and Development) from 1 August 2013 and permanently appointed on 1 April 2014. Mr Raman resigned on 31 January 2016.
7. Appointed from 1 January 2016 as Executive Committee member (General Manager: Research and Development).
8. Appointed from 1 November 2015 as Executive Committee member (General Manager: Quality).
9. Other benefits include bonus (13th cheque), performance related payments, leave capitalisations and a once-off post-retirement medical buy-out.
10. Allowances include sums paid by way of expense allowances, i.e. motor, cell phone and acting allowance as well as long service awards.
11. Retirement benefits include contributions made to Armscor pension fund; medical benefit fund; medical aid; unemployment and funeral scheme.
12. No emoluments are paid to Armscor Defence Institutes ex officio Directors: messrs JG Grobler, SP Mbada and JS Mkwanazi.
13. Mr MBF Mobu, Non-Executive Director and Chairperson of the Acquisition Committee of the Board passed away on 8 May 2015.
14. Appointed from 1 February 2015 as Executive Committee member (Chief Information Officer).
15. The Minister of Defence and Military Veterans approved an adjustment of remuneration of Armscor's Board of Directors on 1 September 2015 backdated to 1 April 2015.
16. Adv S Baloyi resigned as Non-Executive Director on 17 March 2016.
17. Mr L Kuse was appointed from 1 May 2015 as an independent member of the Audit and Risk Committee.

Share options

No share options exist and therefore no share option gains are included in the amount of emoluments received as directors of the Corporation.

Directors' service contracts

Notice periods in respect of employment contracts of executive directors do not exceed one year. Non-executive directors are appointed for a three year period and not bound by employment contracts.

Information applicable to note 31 (continued)

Pensions

Pensions paid or receivable by executive directors are paid or received under defined contribution pension schemes.

32. RELATED-PARTY DISCLOSURES

The Armaments Corporation of South Africa SOC Ltd ("ARMSCOR") is a statutory body, wholly owned by the State, established in terms of the Armaments Development and Production Act (Act No 57 of 1968), and continues, its existence through the Armaments Corporation of South Africa Ltd Act (Act No 51 of 2003).

To execute its mandate, Armscor received a Government grant of R858,7 million (2015: R913,3 million) from the State through the Department of Defence (DOD) as well as a secondary transfer payment (in terms of a separate Memorandum of Agreement) for services rendered from the Department of Defence to the value of R64,3 million (2015: R77,5 million).

	Issued share capital	
	2016	2015
Dormant subsidiaries (At 100% Holdings)	R	R
Armscor Defence Institutes SOC Ltd (loan to)	4 000	4 000
Erasmusrand Eiendomme SOC Ltd (loan from)	1	1
Oospark SOC Ltd (loan from)	1	1
Sportrand SOC Ltd (loan from)	1	1

Armscor is a 33,3% partner in Africa Aerospace and Defence, refer to note 5 for disclosure.

The following table provides the total amount of transactions, which have been entered into by the Group with related parties for the relevant financial year.

	Sales of goods and services to related parties		Purchases of goods from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2016 Rm	2015 Rm	2016 Rm	2015 Rm	2016 Rm	2015 Rm	2016 Rm	2015 Rm
Department of Defence	222,9	240,8	12,9	10,6	48,3	15,0	198,9	151,2
State controlled entities								
Major national public entities (Schedule 2 and 3 public entities)	499,4	365,2	94,7	54,7	26,5	27,2	15,0	19,9
National Government	52,7	48,4	1,2	0,2	7,1	1,6	0,5	7,7

Government grant and the secondary transfer payment received from the Department of Defence are not included in the figures above.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at normal market prices. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 March 2016, the Group has made provision for doubtful debts of R187,3 million (2015: R141,6 million) relating to amounts owed by related parties.

In accordance with Armscor's mandate, acquisition was undertaken on behalf of the Department of Defence. These transactions are set out in annexure A of the financial statements.

	GROUP	
	2016 Rm	2015 Rm
Reconciliation of transfer payments received from the Department of Defence		
- Primary transfer payment recognised in comprehensive income	858,7	913,3
- Secondary transfer payment received	64,3	77,5
- Deferred Income recognised as transfer payment	(26,6)	(29,2)
Total transfer payments reflected - Department of Defence	**896,4**	**961,6**

Assets and stock transferred to the Dockyard with an effective date of 1 April 2010 has been fair valued at R42,7 million and accounted for as deferred income, with the purpose of recognising it in line with the utilisation of the assets and stock. During the financial year an amount of R1,1 million (2015: R2,3 million) was recognised as income in accordance with the utilisation thereof, of which R1,1 million (2015: R2,1 million) relates to assets and R35 103 (2015: R186 076) relates to stock.

Retirement benefits

Details of the Armscor retirement benefits are disclosed in note 6.

Directors

Directors' interests in related parties: No interests in related parties have been declared by Armscor Directors.
Two of Armscor's Executive Directors and two Armscor Management Board Members are ex-officio directors of the Armscor Defence Institutes' Board of Directors at 31 March 2016. 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

Information on the remuneration of all key management personnel is disclosed in note 31.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016 (continued)

33. ENTITY FINANCIAL STATEMENT

Entity financial statements have not been prepared as they are similar to Group financial statements. The only difference relates to the inclusion of a Joint Venture transaction which amounts to R0,3 million.

Reconciliation of entity profits to Group profits:	Rm
Entity profit after tax	200,4
Joint Venture transaction	(0,3)
Group profit	**200,1**

Financial position differences:	Entity	Group
Investment in Joint Venture	0,1	-
Equity	2 192,5	2 192,2

34. EVENTS AFTER REPORTING PERIOD

Armscor Dockyard

On 15 April 2016 the Armscor Board of Directors approved the transfer of the Dockyard. The transfer is a result of the Minister of Defence and Military Veterans announcement in Parliament in terms of the Defence Review. The Dockyard is expected to continue operations until the conditions of transfer have been signed, after which it will be transferred to Denel as a disposable group once suspensive conditions are met. The entire disposal of Dockyard is expected to be completed by 31 March 2017 once these suspensive conditions are met.

The following is Dockyard's financial position as at 31 March 2016:

	Rm
Assets	
Non-current assets	22,9
Current assets	70,1
Total assets	**93,0**
Liabilities	-
Non-current liabilities	100,8
Current liabilities	24,5
Total liabilities and equity	**125,3**

ANNEXURE TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016 (unaudited)

TOTAL VALUE OF ACQUISITION ACTIVITIES

Government grants for operating expenditure are obtained to undertake acquisition actions. In accordance with Armscor's mandate, acquisition was undertaken on behalf of the following organisations:

	2016 Rm	2015 Rm	2014 Rm	2013 Rm	2012 Rm
Department of Defence					
- Special Defence Account	4 714,0	4 481,0	5 170,2	3 580,8	4 573,8
- General Defence Account	2 480,0	2 859,6	2 647,7	2 288,6	1 815,2
SA Police Service	14,0	88,1	94,7	71,8	96,5
Other	45,0	25,5	60,9	72,6	93,7
	7 253,0	**7 454,2**	**7 973,5**	**6 013,8**	**6 579,2**

ACRONYMS AND ABBREVIATIONS

AU	African Union
AAC	Armaments Acquisition Council
AAD	Africa Aerospace and Defence Exibhition
ABET	Adult Based Education and Training
ACATS	Arms Control and Asset Tracking System
ACIRC	African Capacity for Response to Crisis
AET	Adult Education and Training
AFB	Air Force Base
AMD	Aerospace Defence and Maritime Industries Association of South Africa
AVV	Atonomous Underwater Vehicle
B-BBEE	Broad Based Black Economic Empowerment
BEE	Black Economic Empowerment
BoD	Board of Directors
BRICS	Brazil Russia India China South Africa
CAASA	Civil Aviation Association of Southern Africa
CAE	Computer Aided Engineering
CISS	Close-in Surveillance System
COD	Council on Defence
CPD	Continuous Professional Development
CSI	Corporate Social Investment
CWA	Chemical Warfare Agent
CWC	Chemical Weapons Convention
COTS	Commercial off the Shelf
DDSI	Defence Decision Support Institute
DED	Docking and Essential Defects
DERI	Defence Evaluation Research Institutes
DFR	Department of Foreign Relations
DIP	Defence Industry Participation
DLS	Denel Land Systems
DMA	Defence Materiel Acquisition
DMD	Defence Matériel Disposal
DMV	Department of Military Veterans
DOD	Department of Defence
DOD&MV	Department of Defence and Military Veterans
DRIPT	Defence Review Implementation Project Team
Dti	Department of Trade and Industry
ECSA	Engineering Council of South Africa
EDM	Engineering Development Model
ERP	Enterprise Resources Planning
EU	European Union
EW	Electronic Warfare
FAB	Brazilian Air Force
FEDHASA	Federated Hospitality Association of South Africa
GBADS	Ground Based Air Defence System
GFCS	Gun Fire Control System
GFU	Gun Fire Units
GPS	Global Positioning System
IMF	International Monetary Fund
IMT	Institute for Maritime Technology
IBSA	India Brazil South Africa
INCOSE	International Council on Systems Engineering
IP	Intellectual Property
IPV	Inshore Patrol Vessel
LIFT	Lead-In Fighter Trainer
LWS	Local Warning Segment
MAAC	Military Attaches and Advisory Corps
MOU	Memorandum of Understanding
NBD	Naval Base Durban
NCACC	National Conventional Arms Control Committee
NDP	National Development Programme
NPC	Non-Proliferation Council
NSTF	National Science and Technology Forum
OPV	Offshore Patrol Vessel
PBL	Product Baseline
PDSC	Plenary Defence Staff Council
PFMA	Public Finance Management Act
PMBOK	Project Management Body of Knowledge
PPM	Pre-Production Model
RSA	Republic of South Africa
SAAF	South African Air Force
SABS	South African Bureau of Standards
SADC	Southern African Development Countries
SADC	South African Development Community
SADI	South African Defence Industry
SAMHS	South African Military Health Services
SAN	South African Navy
SANAS	South African National Accreditation System
SANDF	South African National Defence Force
SAPS	South African Police Service
SARS	South African Revenue Services
SASSETA	South African Security Sector Education Training Authority
SDP	Special Defence Package
SLA	Service Level Agreement
SMMEs	Small Medium and Micro-sized Enterprises
SOC	State Owned Company
STK	Singapore Technology Kinetics
TDP	Talent Development Programme
TETA	Transport Education and Training Authority
UBRD	Ultra Broken Rail Detector
UN	United Nations
WAN	Wide Area Network
WOMVASA	Women Military Veterans Association of South Africa

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