



ARMSCOR'S ANNUAL REPORT
2007 / 2008 FINANCIAL YEAR

PRESENTED TO THE
PORTFOLIO COMMITTEE ON DEFENCE
ON 17 NOVEMBER 2008

Gateway to Defence Solutions



ARMSCOR
Armaments Corporation of South Africa Ltd

1. OVERVIEW

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- ▶ The Armscor group received an unqualified Audit Report for the period under review.
- ▶ The investigation into the preferred future corporate form and position for Armscor was completed and presented to the Minister of Defence. This will ensure that Armscor focuses on its main objective – to meet the Defence Materiel Requirements of the Department of Defence.
- ▶ The Study into the establishment of the Defence Evaluation and Research Institute (DERI) was completed and presented to the various stakeholders and the Minister of Defence.
- ▶ Armscor took over the management of the Dockyard on 1 September 2007.
- ▶ Progress with the Strategic Defence Packages:
 - Last 3 of the 4 frigates were commissioned and handed over to the SA Navy
 - All 4 maritime patrol helicopters were delivered
 - 7 of the LUHs were delivered, bringing the total to 23
 - The first dual seat Gripen completed the initial flight test programme and the second dual seater was delivered to Air Force Base Makhado for ground crew training
 - 21 of the 24 Hawk Lead In Fighter Trainer aircraft have been delivered to 85 Combat Flying School.
- ▶ Armscor achieved its BEE spending targets.
- ▶ Most of the Goals set to improve the demographic profile of the corporation were achieved (one minor deviation).



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2. BALANCE SHEET AS AT
31 MARCH 2008

2. BALANCE SHEET AS AT 31 MARCH 2008 EQUITY AND LIABILITIES

CORPORATION			GROUP	
2007 Rm	2008 Rm		2008 Rm	2007 Rm
		EQUITY AND LIABILITIES		
		CAPITAL AND RESERVES		
75.0	75.0	ORDINARY SHARE CAPITAL	75.0	75.0
328.5	380.5	NON-DISTRIBUTABLE RESERVES	439.6	395.6
403.5	455.5	ORDINARY SHAREHOLDERS' INTEREST	514.6	470.6
196.7	197.0	CURRENT LIABILITIES	191.8	192.5
108.9	105.1	Short term loan	-	-
39.6	18.2	Accounts payable	92.0	124.6
48.2	73.7	Provisions	99.8	67.9
600.2	652.5	TOTAL EQUITY AND LIABILITIES	706.4	663.1

- Shareholder's interest (Net asset value) increased with 9,4%

2. BALANCE SHEET AS AT 31 MARCH 2008

ASSETS

CORPORATION			GROUP	
2007 Rm	2008 Rm		2008 Rm	2007 Rm
		ASSETS		
		NON-CURRENT ASSETS		
19.5	24.3	PROPERTY, PLANT AND EQUIPMENT	203.3	197.9
-	-	INTANGIBLE ASSETS	0.2	0.2
-	-	OTHER ASSETS	30.0	35.0
580.7	628.2	CURRENT ASSETS	472.9	430.0
236.5	236.6	Investments in subsidiaries	-	-
0.8	0.7	Inventories	6.8	2.3
52.2	73.5	Accounts receivable	153.6	139.7
24.7	25.4	Cash allocated to insurance reserve	25.4	24.7
266.5	292.0	Cash and cash equivalents	287.1	263.3
600.2	652.5	TOTAL ASSETS	706.4	663.1

- Capital investment for the Group of R28 million to maintain operations, consisting mainly of computer equipment and machinery.



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3. INCOME STATEMENT FOR THE PERIOD ENDED 31 MARCH 2008

CORPORATION			GROUP	
2007 Rm	2008 Rm		2008 Rm	2007 Rm
416.3	497.5	REVENUE	1,462.0	1,653.6
416.3	443.9	ARMSCOR REVENUE	423.3	398.5
-	53.6	NAVAL DOCKYARD SIMON'S TOWN OPERATING INCOME	53.6	-
-	-	SALES GENERATED BY SUBSIDIARIES	967.2	1,132.1
-	-	DEFENCE MATÉRIEL DISPOSAL	17.9	123.0
-	-	COST OF GOODS SOLD	(853.1)	(1,099.6)
-	-	SUBSIDIARIES	(839.2)	(1,002.1)
-	-	DEFENCE MATÉRIEL DISPOSAL	(13.9)	(97.5)
416.3	497.5	GROSS MARGIN	608.9	554.0
416.3	443.9	ARMSCOR CORPORATION	423.3	398.5
-	53.6	NAVAL DOCKYARD SIMON'S TOWN	53.6	-
-	-	SUBSIDIARIES	128.0	130.0
-	-	DEFENCE MATÉRIEL DISPOSAL	4.0	25.5

- Revenue of Subsidiaries reduced with 14,6%
- Decrease in sales from obsolete/redundant defence matériel
- Transfer payment of Armcor (included in revenue) increased with 5%

CORPORATION			GROUP	
2007 Rm	2008 Rm		2007 Rm	2008 Rm
(378.3)	(435.5)	NET OPERATING EXPENDITURE	(564.9)	(496.0)
(378.3)	(389.7)	ARMSCOR CORPORATION	(379.1)	(368.3)
-	(45.8)	NAVAL DOCKYARD SIMON'S TOWN	(45.8)	-
-	-	SUBSIDIARIES	(120.9)	(108.4)
-	-	DEFENCE MATÉRIEL DISPOSAL	(19.1)	(19.3)
38.0	62.0	SURPLUS FROM OPERATIONS	44.0	58.0
38.0	54.2	ARMSCOR CORPORATION	44.2	30.2
-	7.8	NAVAL DOCKYARD SIMON'S TOWN	7.8	-
-	-	SUBSIDIARIES	7.1	21.6
-	-	DEFENCE MATÉRIEL DISPOSAL	(15.1)	6.2
(7.8)	(10.0)	FINANCE CHARGES	-	-
30.2	52.0	SURPLUS FOR THE YEAR	44.0	58.0

- Surplus for the Corporation and group mainly due to recognition of surplus on Medical Benefit Fund
- Significant reduction in Contribution by subsidiaries
- Loss from sale of obsolete/surplus defence matériel

**4. FINANCIAL PERFORMANCE PER MAIN
FUNCTION FOR THE PERIOD
1 APRIL 2007 TO 31 MARCH 2008**

DESCRIPTION	NOTES	BUDGET	ACTUAL	VARIANCE
Allocation		364.3	364.3	-
Other income	1	38.3	45.4	7.1
TOTAL INCOME		402.6	409.7	7.1
Less: Expenditure		421.4	389.6	31.8
- Personnel Costs	2	275.4	241.4	34.0
- Other operating Costs	3	146.0	148.2	(2.2)
Surplus/(deficit) before financing income		(18.8)	20.1	38.9
Financing income	4	17.0	24.2	7.2
Surplus/(deficit)		(1.8)	44.3	46.1

NOTES:

1. The increase in other income is due to rental income being higher than budgeted for and additional inspection services delivered by IT and Quality departments.
2. Personnel Costs
 - 2.1 Vacancies budgeted for but not filled, delay to fill vacancies with suitable candidates (R7,2m).
 - 2.2 Recognition of the surplus on post-retirement medical benefits (R26,8m).
3. The negative variance on other services is due to the actual depreciation being higher than budgeted for and additional spending on the IT network replacement.
4. Increase in interest received owing to higher interest rate.

DESCRIPTION	NOTES	BUDGET	ACTUAL	VARIANCE
Allocation		51.3	51.3	-
Other Income		0.1	0.9	0.8
TOTAL INCOME		51.4	52.2	0.8
Less: Expenditure		49.1	45.8	3.3
- Personnel Costs		35.1	35.4	(0.3)
- Other operating Costs	1	14.0	10.4	3.6
Surplus/(deficit) before financing income		2.3	6.4	4.1
Financing income	2	-	1.4	1.4
Surplus/(deficit)		2.3	7.8	5.5

NOTES:

1. The lower spending on other operating costs is due to contract workers that were not appointed.
2. Interest received not budgeted for.

DESCRIPTION	NOTES	BUDGET	ACTUAL	VA-RIANCE
Turnover	1	1,172.0	974.9	(197.1)
Other Income		38.7	38.7	-
Total income		<u>1,210.7</u>	<u>1013,6</u>	<u>(197.1)</u>
Less: Costs of sales		<u>1,013.3</u>	<u>853.1</u>	<u>160.2</u>
Contribution		197.4	160,5	(36,9)
Less : Expenditure		193.5	175.2	18.3
- Personnel costs	2	125.6	117.3	8.3
- Operating expenses	3	67.9	57.9	10.0
Surplus/(Deficit) before financing		<u>3.9</u>	<u>(14.7)</u>	<u>(18,6)</u>
Financing Income	4	<u>5.2</u>	<u>10.1</u>	<u>4,9</u>
Surplus/(Deficit)		<u><u>9.1</u></u>	<u><u>(4.6)</u></u>	<u><u>(13.7)</u></u>

Notes:

1. Comments on variance in turnover:
 - a delay in the approval process with the disposal of surplus defence matériel which resulted in slower sales realisation.
 - a delay in placement of orders on the Defence Institute resting in not enough time to deliver a full service in the financial year under review.
 - Certain high risk sales at IMT and Protechnik did not materialize and the delay in the delivery of Strategic Defence Packages caused a lower sales at AB Logistics.
 - Gerotek and Alkantpan did additional tests and events which resulted in a better performance and assisted the company to recover some of the revenue losses incurred.

2. Personnel Costs
 - 2.1 Vacancies budgeted for but not filled, delay to fill vacancies with suitable candidates (R14,0m)
 - 2.2 Reversal of the surplus on post-retirement medical benefits (Negative - R6,0m).

3. Reversal of depreciation resulting from the review of useful lives of assets (R3,7m), decrease in Contractor Services (R3,9m), S & T (R1m) and a concerted effort on various other expenditure to reduce costs (R1,4m).

4. Finance Income is higher due to an increase in the interest rates and postponement of capital expenditure during the year.