Annual Report 2009/10

ARMSCOR
Armaments Corporation of South Africa Ltd

gateway to defence solutions

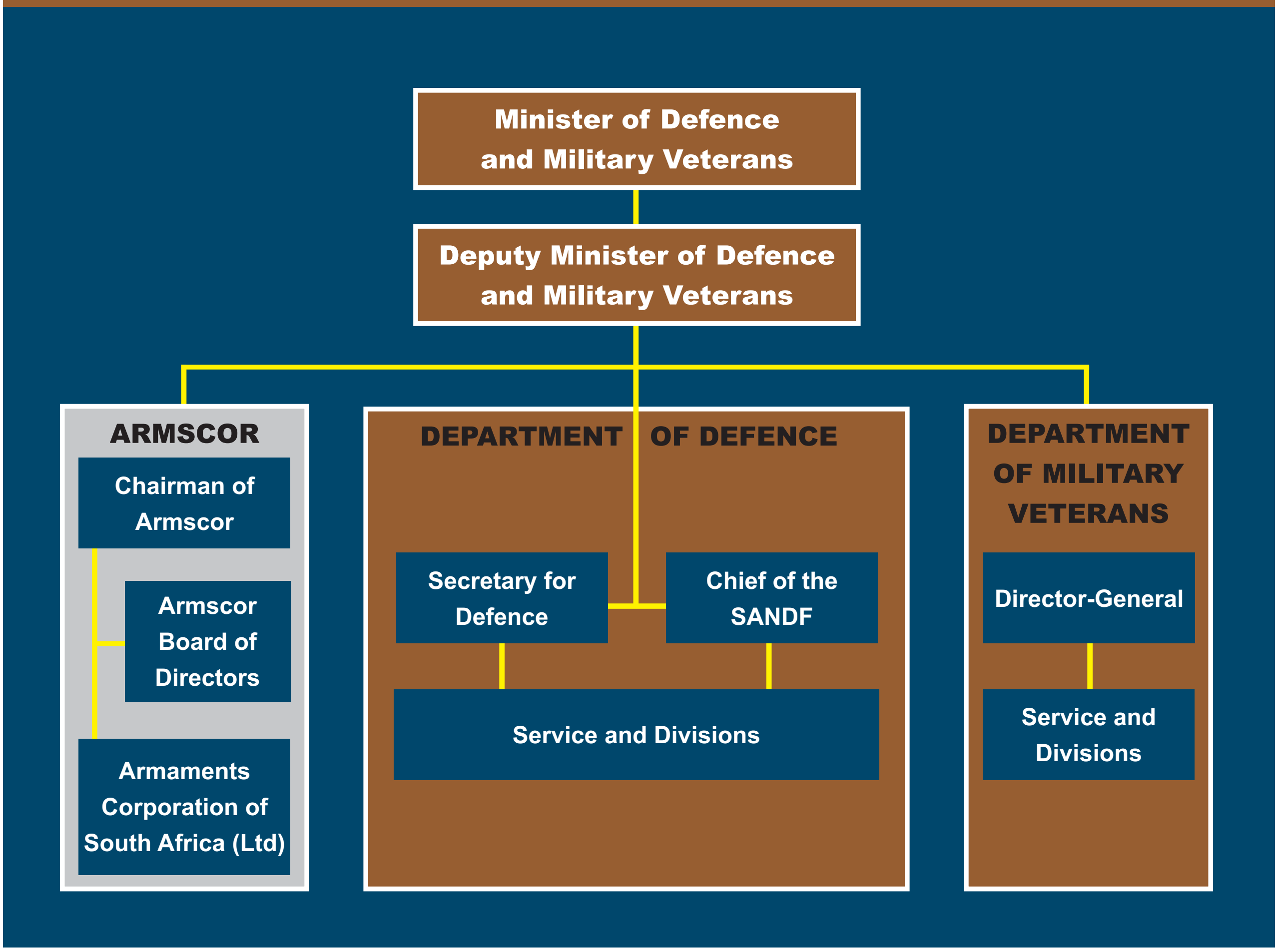
ARMSCOR
Armaments Corporation of South Africa Ltd

CONTENTS

CORPORATE PROFILE

The Armaments Corporation of South Africa Limited (Armscor) is a South African state-owned entity mandated by the Armaments Development and Production Act, 1968 (Act 57 of 1968), and continues its existence through the Armaments Corporation of South Africa Limited Act, 2003 (Act 51 of 2003) The Minister of Defence and Military Veterans is the executive authority responsible for Armscor.

STRUCTURE OF THE MINISTRY OF DEFENCE AND MILITARY VETERANS



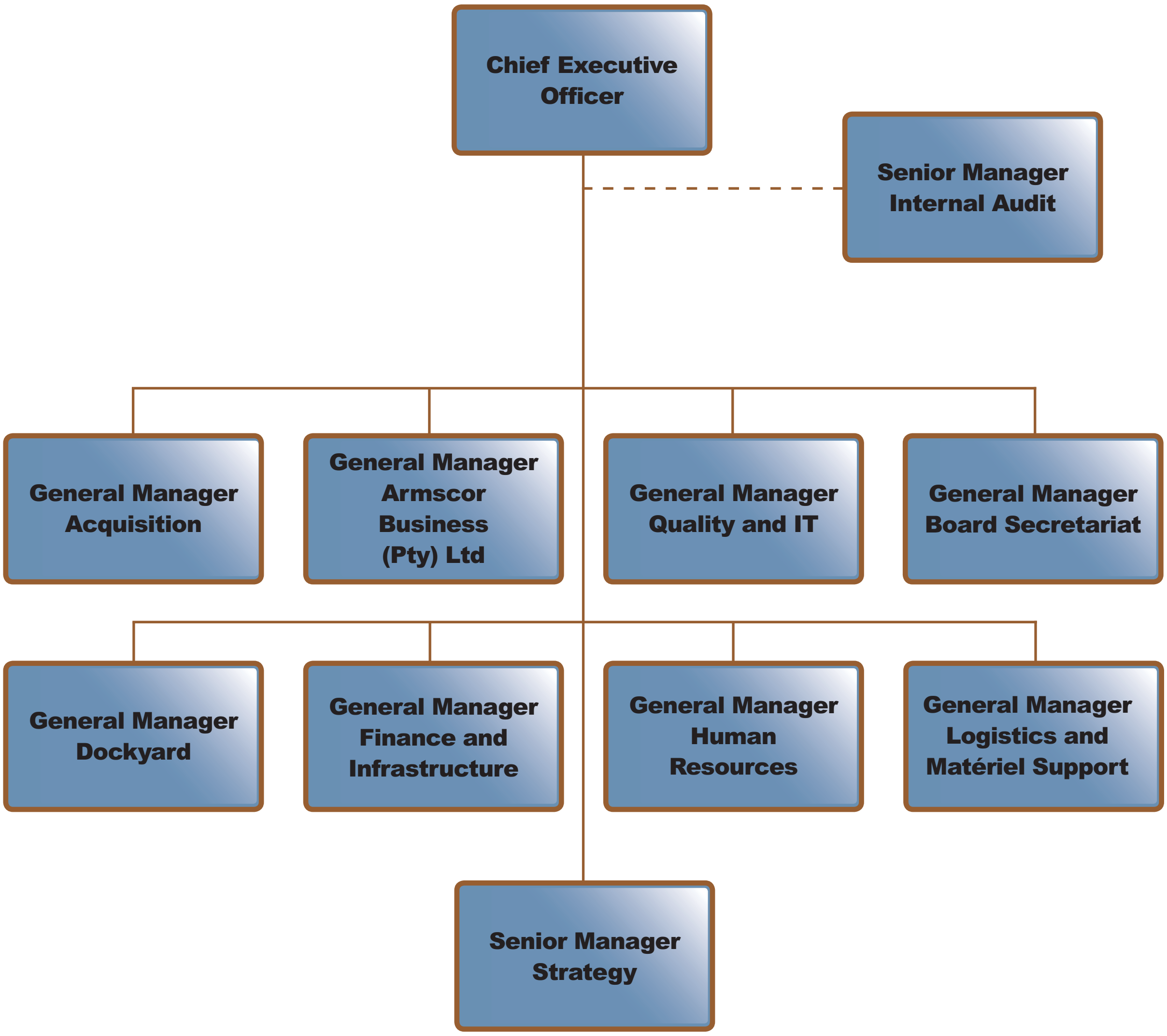
THE BOARD

Armscor is a statutory body. The management and control of Armscor reside with the Board of Directors under the leadership of the Chairman, Dr PS Molefe and Deputy Chairman, Ms R Msiza. To execute its responsibilities and accountability effectively, the Board has two committees, namely the Audit and Risk Committee and the Human Resources Committee. These committees are chaired by Mr EL Borole and Mr SA Msibi respectively.

OFFICE OF THE CHIEF EXECUTIVE OFFICER

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

In undertaking these responsibilities, the CEO is supported by an executive management structure called the Management Board. All the departments are represented at this level.



1. ACQUISITION

In the execution of its functions, Armscor maintains capabilities and technologies that are required to fulfil its mandate, such as appropriate programme management systems, the Defence Industrial Participation (DIP) programme, the management of technology projects and strategic facilities.

Armscor acquires defence materiel for the Department of Defence and for any organ of State that may require such services, such as the South African Police Service (SAPS).

The acquisition role of Armscor pertains to all the actions that need to be taken to satisfy the need for materiel, facilities or services intended for client use or in support of client requirements. These actions include:

- long-term operational research and requirement planning;
- establishment and development of technology;
- design and development of products; and
- systems aimed at industrialisation, as well as manufacturing of mature products and systems that fully meet the stated user requirements.

Armscor remains focussed on and committed to its role of acquiring equipment economically, efficiently and cost-effectively.

Armscor's acquisition role can be broadly divided into four categories, namely systems acquisition, procurement, product systems support and technology acquisition management.

Systems acquisition

Systems acquisition management involves activities such as translating mission and related needs into appropriate technical specifications and providing operationally effective, suitable, survivable and supportable products and systems.

Procurement

Procurement management entails the procurement of existing commercial or military off-the-shelf equipment.

Product systems support

Product systems support management entails the support provided to Armscor's clients during the operational phase of products and systems, and includes maintenance and provision of logistic support for such products and systems.

Technology acquisition management

Technology acquisition management entails contracting for and the development of technologies in support of future acquisition programmes.

2. ARMSCOR BUSINESS (PTY) LIMITED

Armscor Business (Pty) Limited is a wholly owned subsidiary of Armscor and is mandated to manage, support and maintain strategic facilities and essential defence industrial capabilities, resources and technologies as identified by the Department of Defence.

These strategic facilities are structured into two groups; namely the Defence Science and Technology Institutes, which houses the research and development facilities, and the Test and Evaluation Centre, which is responsible for rendering comprehensive testing and evaluation services in both the military and civilian environments.

In order to reposition Armscor Business as an organisation that is correctly aligned to its strategic importance, it will be renamed Armscor Defence Institutes (ADI), as from April 2010. ADI will be run as strategic institutes providing test, evaluation, research and development services.

Defence Evaluation and Research Institutes

The process of establishing the Defence Evaluation and Research Institutes (DERI) was terminated owing to the financial constraints it would have placed on the Department of Defence's budget without a realisable return on investment.

3. DOCKYARD

Armscor manages and operates the Naval Dockyard, which is the SA Navy's third-line maintenance and refitting authority. The Dockyard focuses on maintaining the required capabilities to support the nation's submarines, surface vessels and shore-based support facilities. It executes activities such as planned preventative maintenance, corrective maintenance, reconstruction and repairs, as well as upgrades to and modernisation of the SA Navy's vessels (ships and submarines).

4. SUPPORT FUNCTIONS

Human Resources

The Human Resources Department provides leadership in the development, implementation and administration of sound human-resource policies, procedures and programmes that support Armscor's statutory mandate. Its goal is to be responsive to the changing needs of its stakeholders, including employees, management, employee organisations and other defence-related entities while advancing the strategic goals and interests of Armscor.

Defence Support

Armscor is responsible for providing an integrated defence industry support function, which entails the facilitation of South African defence-related industries (SADRI) participation at international defence exhibitions, industrial ambassadorship, and the management of requests for the utilisation of South African National Defence Force (SANDF) equipment, personnel and facilities for SADRI marketing purposes.

Defence Support is also responsible for defence matériel disposal, configuration management, data management, and the provision of freight and travel logistics.

Quality and Information Technology

The Quality and Information Technology Department provides strategic guidance and services to Armscor and other clients in the following fields of expertise:

- Quality engineering;
- Information technology (IT);
- Arms control;
- Project security;
- Broad-based black economic empowerment (BBBEE); and
- Safety, health and the environment (SHE).

Finance and Infrastructure

The core functions of the Finance and Infrastructure Department are to provide strategic and day-to-day financial services in support of the execution of the mandate and to meet external and internal financial reporting requirements. In addition, the department is responsible for the maintenance of the infrastructure and operational procurement activities required by the corporation.

Dr PS Molefe (Chairman)

CHAIRMAN'S REPORT

INTRODUCTION

This report reflects the business of Armscor for the year under review, namely 2009/10. This was an important year for the country for the following two reasons:

- The new government under President Jacob Zuma restructured government portfolios in an effort to enable it to achieve visible and tangible socio-economic development over the next five years; and
- The country finalised preparations and got ready to host the 2010 Soccer World Cup – the most celebrated event in human history.

During the year under review, the Ministry of Defence incorporated the Military Veterans Portfolio. It is now called the Ministry of Defence and Military Veterans. For this reason, Armscor, like all other entities reporting to the Ministry, had to align its business strategy to accommodate this change.

We had an opportunity to welcome the new Minister and Deputy Minister, Honourable Minister Lindiwe Sisulu and Honourable Deputy Minister Thabang Makwetla. Remarkable progress has been made in building a good and sustainable working relationship with both the Minister and her Deputy. I wish to take this opportunity to thank Honourable Charles Nqakula, the former Minister of Defence and his Deputy, Honourable Fezile Bhengu, for their support.

EXECUTIVE AUTHORITY

The Board of Directors fulfilled its responsibilities and exercised accountability in a diligent manner. Among others, the Board decided to put emphasis on repositioning and strengthening the acquisition and procurement processes, strengthening the leadership of the organisation, developing clear and robust strategies in all key strategic areas, and improving stakeholder relationships.

The members of the Board have been particularly consistent in executing their functions and responsibilities. The attendance and participation at meetings was at its highest in the history of the Board. The members were active throughout the reporting period and paid intense attention to the workings of the Board, especially with regard to the areas of importance.

During the past year the Board took very important decisions relating to the procurement processes of Armscor. One of those decisions was the termination of the A400M Airbus contract. This decision was taken after proper consultation with the Ministry of Defence and Military Veterans.

The processes leading to the decision entailed careful analysis of the impact on the strategic needs of the SANDF and potential ramifications for international trade and political relations. While the case of the Airbus is mentioned as an example, it was not the only one. The Board scrutinised all acquisition projects.

I can confidently state that the Board exercised care and diligence in exercising its fiduciary duties on procurement matters.

CORPORATE GOVERNANCE

The Institute of Directors, a reputable organisation that helped draft the King Code on Corporate Governance, conducted the performance assessment of each director of Armscor in accordance with internationally accepted practices.

In this fiscal year, alignment with accepted practices of corporate governance was one of the key focus areas. To that extent the Minister appointed a deputy chairperson to the Board, Ms Msiza. The entire Board and management team join me in congratulating Ms Msiza on her appointment, which affirms the Minister's commitment to gender equity and empowerment of women.

During the year under review, the Board had one resignation, namely that of Ms Ndume Medupe, who was a non-executive director. We thank Ms Medupe for her invaluable contribution during her term of office.

In line with the Board's objective of ensuring an organisation with solid and strategic leadership, it took a difficult decision of relieving Mr Thomo, the CEO of Armscor, of his duties. The Board remains unanimous that the leadership of the organisation is a vital issue that should not be compromised. I am therefore pleased to report that the organisation remains stable and runs efficiently and effectively under the leadership of the Acting CEO, Mr S Mkwanazi.

The Board has begun the process of appointing the new CEO. The Board is of the opinion that Armscor needs a quality leader who would motivate, inspire and develop the staff to carry out the assigned mandate.

STRATEGIC PLAN

The Board was fully involved in the development of the strategic plan of the organisation. We are of the view that the plan enshrines the ethos that the Board sought to infuse in the development of Armscor as a growing organisation.

The Board is now confident that management will implement the strategy with swiftness, so that the oversight work of the Board as the accounting authority is enhanced.

The Board identified stakeholder relations management as one of the key areas that needed to be strengthened. To this end, the Board directed the executive management to develop a specific plan and make appointments to address this priority area.

The restructuring process of the organisation is under way to reflect the strategic intent of the company.

TRANSFORMATION

Over the years Armscor has been faced with the persistent challenge of BBBEE targets. This challenge is exacerbated by the predominance of foreign suppliers in the defence procurement environment. These suppliers are not bound by BBBEE requirements.

The Board has directed management to look at ways of strengthening BBBEE and support of local industry.

FUNDING

The annual budget allocation to Armscor from Government remains a challenge in terms of the future sustainability of the company. The matter has been the subject of discussion between the Board and the Minister of Defence and Military Veterans. The Board will engage the Minister until the issue of sustainable funding has been resolved. To this end, the Board will present a feasible plan to deal with the funding of Armscor.

ACKNOWLEDGEMENTS

We wish to express our appreciation to the Honourable Minister, the Deputy Minister and the Department of Defence and Military Veterans for the close working relationship and support we have enjoyed during the year under review.

Our thanks also go to the Chairperson and the members of the Portfolio Committee on Defence and Military Veterans for their continued and determined contribution to the building of a resilient, efficient and effective defence environment in South Africa.

I thank the directors for the hard work that they have put into the organisation during the year under review. I am witness to their diligence, and the difficult and long meetings they had to endure.

On behalf of the Board I wish to express our appreciation to the management and staff. It is through their efforts that Armscor continues to stand firm as an organisation of exceptional calibre.

Dr PS Molefe
Chairman

FOREWORD BY THE ACTING CHIEF EXECUTIVE OFFICER

Mr JS Mkwanazi

During the year under review, Armscor continued to demonstrate its commitment to supporting the Department of Defence and the defence-related industry at large. This included rendering support regarding security for the 2010 FIFA Soccer World Cup tournament hosted by South Africa. This years report will focus on the following areas:

- Defence environment analysis and its impact on Armscor;
- Strategic focus;
- Highlights and challenges for the future; and
- Review of the previous financial year.

DEFENCE ENVIRONMENTAL ANALYSIS AND ITS IMPACT ON ARMSCOR

The annual Department of Defence' environmental scan, in conjunction with the Government's Medium-term Strategic Framework priorities, produced the following issues impacting on Armscor:

- The competing needs of the country put a strain on the limited budget.
- The impact of the recession on government revenue and inflation affected the defence budget, with consequences on the allocation of funds to Armscor.
- Continual improvements to be cost-effective and the achievement of high-quality corporate governance will remain high priorities.
- Peace missions in the region and beyond, as well as assistance to other government departments as and when required, are likely to remain important for the Department of Defence and Military Veterans in the foreseeable future.
- Defence technology investment and support for industry will continue as a means of providing and sustaining key capabilities for the SANDF.

These realities will inevitably impact on Armscor and will be accommodated in our strategic planning in order to ensure the continued provisioning of quality service to the Department of Defence.

The annual environmental scan confirmed that focussed, committed leadership, the quality of the current workforce, teamwork, robust processes, a positive corporate image and good client relations provide an excellent foundation upon which Armscor can build its future.

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, a six-pillar strategy was established:

- Strategic initiative 1: Funding and growth;
- Strategic initiative 2: People and capabilities;
- Strategic initiative 3: BBEEE;
- Strategic initiative 4: Stakeholder relationships;
- Strategic initiative 5: Local industry; and
- Strategic initiative 6: Operational efficiencies.

Armscor has developed the following strategy action plan to address the above strategic initiatives, as summarised below:

STRATEGIC INITIATIVE 1: FUNDING AND GROWTH

Funding of Armscor

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

The transfer payment to Armscor from the Department of Defence was increased by an average annual rate of 5% for the past two years, as well as for the current year, which is a decrease in real terms, considering the inflation rate (CPIX) of between 3,8% and 10,1%.

Armscor has developed appropriate strategies to address the challenge in order for it to deliver efficient and effective services. Despite the challenges, Armscor is committed to deliver quality service and equipment to the SANDF. To this end, Armscor embarked on the following activities:

Armscor cost model

The objective of this initiative is to develop a value chain and corporate cost model to serve as motivation for obtaining sufficient funding to execute the required activities, as well as manage costs effectively. The cost model will be completed by December 2011 for implementation in April 2012. The interim model has however been completed.

Operationalisation of the Simon's Town Naval Dockyard

The focus was to turn the Dockyard around in order to be able to fully meet the requirements of the primary client, the SA Navy. The Dockyard Strategy laid the foundation for the establishment of the organisation's value chain and business plan. The business plan will be finalised in the next financial year. Funding, however, remains one of the challenges impacting on the delivery of the Dockyard's mandate.

STRATEGIC INITIATIVE 2: PEOPLE AND CAPABILITIES

Armscor is still faced with the risk of skills erosion due to retirement and inadequate attraction of required talent. In order to reduce the risk of losing critical capabilities, Armscor developed a retention and rejuvenation strategy. This strategy focuses on the following three areas:

- Recruitment strategies, the bursary scheme, the Talent Development Programme (TDP), and attracting required skills with a focus of attracting young talent;
- Retaining staff by offering competitive salaries and meaningful employment; and
- Developing training and mentorship programmes aimed at systematically transforming and renewing Armscor's workforce.

Transformation remains high on Armscor's agenda. As a corporation, Armscor faces the challenge of transforming itself in a manner that represents the country's demographic profile. Armscor's mostly male, white and ageing workforce makes it imperative for the corporation to transform and renew its employee profile. A transformation strategy was developed and is being implemented.

In order to create good employee relations, Armscor conducted a cultural and employee satisfaction survey to identify improvement areas for bridging the gap between the current and preferred culture. In the next financial year, a corrective action plan will be developed to address the gaps identified.

Armscor also needs to constantly appraise the extent to which it builds its internal leadership and technical capacity. It is with this in mind that Armscor continually encourages young engineers and scientists to take a keen interest in the defence industry.

STRATEGIC INITIATIVE 3: BROAD-BASED BLACK ECONOMIC EMPOWERMENT

In dealing with the challenge of insufficient representivity in Armscor and a lack of compliance with the required BBBEE Codes of Good Practice for the defence industry, an action plan was embarked on.

Verification of the current BBBEE level of compliance for Armscor was obtained and specific actions were identified to improve Armscor's BBBEE recognition level. Armscor revised its BBBEE strategy to align it with the BBBEE Codes of Good Practice.

The revised BBBEE strategy was approved by the Armscor Board of Directors and is being implemented.

STRATEGIC INITIATIVE 4: STAKEHOLDER RELATIONSHIPS

This initiative is aimed at ensuring positive relationships with all identified stakeholders in order to enhance the image and reputation of Armscor. The Stakeholder Strategy was reviewed in order to focus on building and maintaining positive stakeholder relationships. The action plan was developed and is being implemented.

STRATEGIC INITIATIVE 5: LOCAL INDUSTRY

Support for local industry is critical in creating and sustaining the required capability to support SANDF operational requirements. The defence industry is faced with the challenges of globalisation and international shrinking of defence budgets. These challenges result in fierce competition for declining market shares. The cyclic nature of the defence industry causes some of the industry players to rely mainly on foreign markets for survival, which threatens the sustainability of the local industry.

An integrated industry support strategy is being developed to encompass industry capability management for sustainability, BBBEE, DIP support and export support.

STRATEGIC INITIATIVE 6: OPERATIONAL EFFICIENCY

Operational inefficiencies as a result of outdated infrastructure, in particular IT systems, and lack of alignment, integration and efficiency measurements are being addressed. This is done by developing a productivity management system and reviewing the Information Management and Technology Strategy in order to renew outdated IT application systems.

ORGANISATIONAL STRUCTURE

The review of the organisational structure is underway and is envisaged to be completed in the next financial year.

SERVICE LEVEL AGREEMENT WITH THE DOD

A new rolling three-year service level agreement (SLA) with the Department of Defence and Military Veterans was signed in July 2009. This SLA needs to be updated every year and is presently being enhanced with more detailed business plans for every department in Armscor. The updated SLA will be signed in October 2010.

ACKNOWLEDGEMENTS

It is my privilege to thank the Minister of Defence and Military Veterans, Honourable Lindiwe Sisulu, and her Deputy, Honourable Thabang Makwetla, for their valuable support and guidance to Armscor. I also thank the officials of the Department of Defence and Military Veterans who were available and willing at all times to assist in operational matters.

A special word of appreciation goes to the then Acting Secretary for Defence, Mr T Motumi, and to the Chief of the SANDF, Gen. N Ngwenya, for the confidence they have shown in the Armscor team. Their contribution and support to Armscor are highly appreciated.

It was a pleasure to serve our primary clients, namely the SANDF as a whole, the SAPS and Correctional Services, during the year under review and we thank them for their support.

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

I also thank the aerospace, maritime and defence industry for having been a valuable partner.

The members of the Board of Directors have all been pivotal in steering this national asset, Armscor, in a direction that enabled us fulfil our mandate with professionalism, dedication and integrity.

The Armscor Management Board, organised labour and all the personnel are the indispensable human capital. Their dedication ensured that Armscor remained at the cutting edge of service delivery, efficiency and that it remained a reservoir of scientific and engineering excellence. I thank them immensely. Without them the successes recorded during the year under review would not have been realised.

Armscor looks forward to the new fiscal year with greater optimism, ready to take its performance to a higher level. We are determined to succeed in carrying out our mandate.

JS Mkwanazi
Acting Chief Executive Officer

REVIEW OF OPERATIONS

The year under review saw significant progress regarding all the acquisition programmes, despite the declining defence budget and limited human resources.

1. ACQUISITION

A significant portion of the project management function in Armscor is centred on the acquisition of complex systems. Armscor's acquisition involvement traditionally starts with the receipt of an approved user requirement from its client. From there a formalised process of risk reduction is followed, which eventually leads to the contracting of suitable suppliers to develop and manufacture the fully specified products or product systems.

A formalised source-selection process, entailing the development and application of value systems, is followed to identify preferred suppliers that would provide the best value for money solutions for specific user requirements.

In cases where no existing products can meet the specific user requirements, selected suppliers are contracted to develop the required product systems and deliver successive development models. These development models range from experimental development models, advanced development models and engineering development models to pre-production models. After successful evaluation and qualification of the designs and related production processes, contracts are established and managed for the required number of products and product systems.

The proper management of acquisition projects demands the management of many diverse technical, financial and other disciplines, such as systems and logistics engineering, resource management, contracting, quality assurance and design assurance. At the core of all acquisition projects are integrated project teams that consist of members of Armscor and the Department of Defence, with the responsibility of properly and adequately meeting all the project management requirements of acquisition projects. Such integrated project teams are led by Armscor project managers and – depending on the extent and complexity of the project – various domain specialists are allocated to the teams to perform specific roles.

In order to properly execute their professional project management responsibility as required by the Armscor Act, it is essential that the proficiency level of Armscor's project managers be maintained and continually updated – in all the required domains. To achieve this, specific in-house training courses and modules have been developed, which are focussed specifically on the competencies required by personnel in the various sub-disciplines within the acquisition environment. During the past year, the first of two week-long formal in-house courses on acquisition and project management were presented to project managers. These mandatory courses serve as refresher courses for experienced personnel as well as introductory courses for new personnel.

Armscor's Acquisition Department is functionally structured with technical divisions focussing on specific technical disciplines. The technical divisions thus provide a home base for project managers specialising in the specific technical domains. In order to improve

Mr JS Mkwanazi
Acting: CEO

Ms NRM Borotho
GM: Logistics & Matériel Support

Mr MM Matibe
Acting GM: Quality & IT

Mr TT Goduka
GM: Dockyard

liaison and interaction with the Department of Defence, Armscor's main client, divisions within the Acquisition Department have been grouped together to mirror the acquisition and procurement structures within the Department of Defence and Military Veterans. These groupings, as far as possible, provide single points of entry to the respective acquisition and procurement directorates, and serve to provide significant improvement in communication with the Department of Defence.

The utilisation of new technology in the design and development of equipment is important in optimising the cost-efficiency and effectiveness of new equipment. In order to ensure that the development of new equipment and capabilities for the SANDF is based on the utilisation of suitable, modern and mature technology, Armscor and the Department of Defence identify and manage a number of technology development projects within local industry aimed at supporting identified future system development projects.

Armscor project managers, making use of their specialist knowledge in the various technological domains, have been very successful in identifying the technological building blocks needed for the eventual implementation of planned development projects. The research into and development of identified critical technologies that are subsequently used in the development of new products systems have, in the past, contributed greatly towards providing the SANDF with competitive advantages with regard to performance of its weapon systems.

Involvement in the initiation of new technology development projects remains a very important aspect of the responsibilities of Armscor's project managers. In order to effectively execute this responsibility, it is imperative that the project managers remain technologically up to date in their specific areas of expertise. It is essential, therefore, that the project managers gain as much exposure as possible to new developments in the international arena.

Although most of the product systems acquired under the Strategic Defence Package (SDP) projects were delivered and are in use by both the South African Air Force (SAAF) and SA Navy, the activities required towards establishing the operating baseline for these systems still form a significant part of the acquisition portfolio of Armscor. During the period under review, the Westland Super Lynx Maritime Patrol Helicopters have entered operation on the frigates of the SA Navy, the last of the Agusta A109 Light Utility Helicopters have been delivered to the SAAF, and all the dual-seat and the first two single-seat Gripen aircraft were delivered.

All twenty-four BAE Systems Hawk Lead-In Fighter Trainer aircraft, demonstrating full functionality, are being used by the SAAF. Good progress has been made with the development of both the short-range air-to-air missiles (which is a jointly-funded programme with the Brazilian Air Force), as well as with the new-generation infantry combat vehicle (which is intended to replace the ageing Ratel ICV being used by the SA Army).

The past year also saw the cancellation of the Airbus A400M contract and further serious delays with the development of the Ground-based Air Defence System (GBADS). High-level management intervention in the GBADS programme is taking place in an attempt to ensure the delivery of a GBADS capability to the SA Army.

Mr K Hanafey
Acting GM: Armscor Business (Pty) Ltd

Mr S Mbada
GM: Human Resources

Mr D Griesel
Acting GM: Acquisition

Mr JG Grobler
GM: Finance & Infrastructure

ACQUISITION OBJECTIVES

Good progress has been made with the development of a costing model that will be used as a predictor of required capacity and the required level of funding to execute all acquisition programmes currently funded by the Department of Defence. The development of the cost model has progressed to a point where a first-order indication of required capacity can already be obtained. This model will further be refined during the next six months.

Strict baseline management and more formalised requirement reviews on all acquisition projects are delivering very positive results. This initiative, which forms part of the drive to re-emphasise technical assurance management as part of the acquisition function, is producing benefits such as exposing project risks and integration issues. It has also led to the introduction of several measures to strengthen the capability of integrated project teams on ground level.

The original capability management initiative within the Armscor Acquisition Department is complete. However, use of management information provided is being refined to more effectively manage, develop and allocate scarce resources. This system now enables management to gain information on resource-loading and allocation to all elements of the business.

The updating of the acquisition policy and associated practices has been a high priority. Unfortunately, due to a scarcity of resources, there has been limited progress and only the baseline review practice has been updated and completed. Significant progress has, however, been made on updating the project management, capital acquisition and source-selection practices, which were also a priority.

ACQUISITION HIGHLIGHTS

MEKO®A-200 SAN frigates and Maritime Patrol Helicopters

This programme entails the acquisition of four MEKO®A-200 SAN frigates from a consortium consisting of German, French and South African partners. The frigates, designated as Valour Class frigates by the SA Navy, have all been handed over to the client and are being actively deployed.

Integration of the ship-borne Super Lynx MK 300 Maritime Helicopter, which forms an integral part of the frigate system, is still ongoing (in conjunction with the SAAF), and should be completed by the end of 2010.

Current vessel activities are focussed on the completion of certain operational tests and evaluation trials linked to the 35-mm Dual-Purpose Gun, as well as completion of certain engineering changes aimed at the enhancement of certain operational capabilities. It is envisaged that the project will be completed by the end of March 2011.

Both the German Frigate Consortium and Thales Naval France have successfully discharged their portions of the DIP obligation related to the platform and combat suite respectively. The outstanding portion of R945 million relates to MBDA's obligation for the supply of the missile systems, which is to be finalised by March 2016.

Shallow-water route survey system

A shallow-water route survey capability for the SA Navy was procured and established as a short-term solution to a perceived shortfall regarding security planning during South Africa's hosting of the 2010 FIFA Soccer World Cup. The new system would be used to conduct route surveys in Durban, Port Elizabeth and Cape Town harbours and contribute towards underwater security in the respective ports.

New technology is available whereby a Multi-Beam Echo Sounder (MBES) with a high frequency can provide a full seafloor search of the seabed. An integrated system, which contains MBES, and fitted with an inertial-aided motion compensator, high-precision global positioning system, acquisition and processing software, side-scan sonar and a sub-bottom profiler, provides accurate and precise data during a shallow-water route survey for the provision of safe navigation and underwater security.

The systems are deployed and operated from survey motor boats. Gathered data is transferred ashore via wireless data links to each respective shore base, from where it is processed and forwarded to the main data centre located on board the SA Navy hydrographical survey ship, SAS Protea. From this ship the underwater situational awareness of each port is collectively managed.

Class 209 Mod 1400 submarines

Following the commissioning and delivery of the three submarines, the project emphasis has shifted towards the implementation of a number of engineering changes in order to meet operational, safety and support-related requirements. The fulfilment of these engineering changes will be completed in 2012.

The most significant of these changes relate to the acquisition of submarine-specific shore facilities located in Simon's Town, which include the following:

- The establishment of a combat suite engineering test facility, required for diagnostic maintenance and training purposes;

• The development of a periscope simulator;
• The construction of a submarine escape training facility; and
• The supply of a high-current circuit-breaker overhauling facility.

AIRBORNE SYSTEMS

Maritime Patrol Helicopter

Four Super Lynx 300 Maritime Patrol Helicopters have been acquired from Agusta-Westland in the United Kingdom (UK). These helicopters are operated by 22 Squadron at Air-Force Base (AFB) Ysterplaat in support of the four MEKO®A-200 frigates of the SA Navy; thereby enhancing the capabilities of the frigates.

The operational testing and evaluation of the Maritime Patrol Helicopter product system has been completed in preparation for release to service, which is scheduled to take place in July 2010. A number of successful operational deployments of the helicopters have already been completed by the SA Navy.

The majority of the activities under the DIP obligation will only be completed during the last 18 months of the programme, which will end in September 2010.

Apart from core business activities, namely the provisioning of certain Super Lynx on-board systems, Agusta-Westland continues to support non-core business at companies such as Canvas and Tent.

Light Utility Helicopters

The Light Utility Helicopter project involves the acquisition of thirty Agusta A109 Light Utility Helicopters for the SAAF from Agusta-Westland in Italy.

All thirty of these A109 Light Utility Helicopters have been delivered and are currently in operation. These helicopters were taken into service, and although some of the enhanced functionality is still outstanding, the process of upgrading the helicopters to the final contracted standard is virtually complete.

During the reporting period, the retrofits of the first twenty helicopters were completed. The remaining helicopters will be completed by the end of April 2010.

Airbus A400M strategic heavy-lift transport aircraft

The programme involved the acquisition of eight Airbus A400M strategic heavy-lift aircrafts from Airbus Military (AMSL) as part of a nine-nation cooperative project.


Type MEKO®A-200 SAN Frigates


Class 209 Mod 1400 Submarines


Maritime Patrol Helicopter


Light Utility Helicopters

Airbus A400M Strategic Heavy-Lift Transport Aircraft

SAAB JAS 39 Gripen Advanced Light Fighter Aircraft

Hawk 120 Lead-In Fighter Trainer Aircraft

New-Generation Short-Range Air-to-Air Missile

As per the contract, delivery of the South African aircraft was scheduled during the period 2010 to 2012.

The project suffered serious delays and the first flight of the aircraft, originally scheduled to take place during January 2008, only took place in December 2009. As a result of these delays, as well as an anticipated cost increase to complete the programme, Armscor's Board of Directors decided to terminate the programme. The termination was done after consultation with the Ministry of Defence and Military Veterans and various other interested state departments.

The decision to terminate the programme was ratified by Cabinet, and on 5 November 2009, notice of termination was communicated to AMSL by Armscor.

A number of outstanding issues between Armscor and AMSL emanating from the termination of the contract are being addressed.

Advanced Light Fighter Aircraft

This programme entails the acquisition of twenty-six SAAB JAS 39 Gripen Advanced Light Fighter Aircraft from the BAE/SAAB Consortium in Sweden. This is the longest running of the SDP programmes.

During the period under review, all nine dual-seat aircraft and the first two single-seat aircraft were delivered to the SAAF and are in operation.

The required air-to-air combat capability for the Gripen aircraft has been fully established with the upgrading of the aircraft with IRIS-T missile functionality, the delivery of operational IRIS-T missiles, forward-looking infrared pods, and 27-mm ammunition for the single-seat aircraft guns.

The Gripen conversion for pilots and ground crew has been successfully completed. Acceptance of the third and fourth Gripen single-seat aircraft is to be completed in Sweden at the end of March 2010. Acceptance of the fifth and sixth single-seat aircraft is planned for April 2010. All four aircraft will be shipped to South Africa in May 2010 to increase aircraft availability required for the 2010 FIFA Soccer World Cup tournament.

Delivery of four more single-seat aircraft is expected before May 2010. All fifteen single-seat aircraft will be delivered by March 2012.

Lead-in fighter trainer aircraft

This programme provides for the acquisition of twenty-four Hawk 120 Lead-In Fighter Trainer (LIFT) aircraft from BAE Systems in the UK. The LIFT aircraft are primarily used during the progression of pilots from their initial flying training on Pilatus Astra trainers to the Gripen Advanced Light Fighter Aircraft. All twenty-four aircraft, with full functionality as per the contractual baseline, have been taken into operational service by the SAAF and are being operated by 85 Combat Flying School at AFB Makhado.

The avionics development for this aircraft won the Armscor CEO's Award for 2009.

New-generation short-range air-to-air missile

The project entails the development of the A-Darter short-range air-to-air missile system by Denel, co-funded by the Brazilian Air Force.

During the previous reporting period, the emphasis was on the testing and evaluation of missile subsystems. In the current review period, the test and evaluation phase intensified, with increasing demands regarding the complexity leading from pre-programmed flight control to autonomous guidance and control.

A second round of ground-launched pre-programmed missile flight tests were conducted. The tests proved that major flight control risks have been overcome. The performance of the infrared seeker was evaluated in two separate independent tests – one being a ground-launched autonomous guided test to evaluate the seeker's functioning under extreme acceleration and high G-turn manoeuvres, and the second being a pod test (flying condensed test laboratory) to evaluate detection and tracking capabilities of the seeker.

The positive results achieved from these tests have significantly lowered the risk of the seeker not achieving the required specifications.

The first flyable A-Darter missile hardware completed a strenuous series of flutter and carriage flight tests on the SA-baseline Gripen aircraft in March 2010, during which the missile was cleared to be carried over the full flight envelope of the Gripen aircraft. This work is part of the process of integrating and clearing the missile for use on the Gripen aircraft. The rocket motor for the A-Darter missile underwent safety certification in preparation for the separation firing clearance trials, which is planned for June 2010 and which would be executed from a Gripen aircraft.

Ground Based Air Defence System (GBADS) for the SA Army

New-Generation Infantry Combat Vehicle

LANDWARD SYSTEMS

Ground-Based Air Defence System for the SA Army

The programme entails the development of a local warning segment (LWS) for the Ground-Based Air Defence System (GBADS) for the SA Army's Air Defence Artillery Formation. The program has been plagued by delays since its inception. The programme, which was scheduled to be completed within 30 months, has to date slipped by 47 months. The delays have been addressed by the Boards of Directors and Executive Management of Armscor and Denel. A new strategy has been developed to provide the user with an acceptable air defence capability in the near future.

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, which has been in service since 1976. The project essentially comprises five combat variants, including logistic support and ammunition. The vehicle platforms are sourced from Patria Land and Armament in Finland, while turrets and weapon systems are locally developed by Denel Land Systems as the prime contractor.

Both the local and foreign components of the project are progressing well. Manufacturing of the five Engineering Development Model (EDM) platforms (common configuration) was completed by Patria in Finland on 24 February 2009. Four platforms are in South Africa, and delivery of the fifth platform should be completed by June 2010, after the integration of the Health and Usage Monitoring System and the Navigation System.

The allocated baseline for the section variant and command variant was achieved in November 2009. Establishment of the product baseline is planned for September 2010.

The development of the local 30-mm Cam Gun is progressing well after some initial technical problems. The test and evaluation of the EDMs is in process. The development of the 30-mm TP, SAPHEI and AP ammunition by Denel PMP encountered technical problems during the acceptance of the EDM 2 Batch. The ammunition is being remanufactured and all performance objectives should be achieved.

System safety is a high priority on this project, and good progress has been made towards the mitigation of identified safety hazards and risks. The project team regularly makes presentations to the Landwards Safety Board, with the aim of achieving full safety certification for the product system. This is a continuous process, including checks and balances upon completion of each different project baseline.

COMMON WEAPON SYSTEMS

New-Generation Tactical Communication System

This project addresses the acquisition of a complete new-generation tactical communication system for the SANDF. This system will make provision for all tactical communication requirements for all Arms of Service and will ensure interoperability between all users. The communication system will encompass state-of-the-art transmission and information security techniques, while incorporating semi-real-time data-link performance characteristics, as well as digital voice communication. Backwards compatibility to existing systems will be possible, utilising an advanced management system.

Interoperability between all elements of the battlefield (SAAF, SA Army, SA Navy, etc.) will be possible without making use of gateways or protocol converters – the first system in the world capable of total interoperability.

The communication system will consist of seven subsystems, which will be contracted separately. The development and industrialisation phases of the two major subsystems, namely the High-Frequency radio system and the Very/Ultra-High Frequency radio system, have been contracted and full-scale development of both systems is progressing well. It is anticipated to have the development and industrialisation phases of both systems completed by February 2013.

DEFENCE INDUSTRIAL PARTICIPATION

An important part of the SANDF objective of maintaining a critical minimum state of preparedness is the existence of an equally prepared and capable local defence industry.

DIP is an integral part of the Department of Defence policy framework for the retention and development of the South African defence industry, which is regarded as a national strategic and economic asset.

Through the utilisation of DIP obligations resulting from the acquisition of capital equipment, DIP strives to contribute significantly to the retention of self-sufficiency in key areas, the establishment of lifecycle support on sophisticated equipment, the earning of foreign exchange through exports, the creation of domestic employment and the development of defence technology.

The Department of Trade and Industry, through its National Industrial Participation (NIP) programme, aims to grow and develop various economic sectors.

DIP complements this process by specifically focusing on the defence industry.
Armscor manages the following portfolios under the DIP programme:

- The SDPs Portfolio, which addresses the DIP obligation resulting from the acquisition of SDPs signed in 1999.
- The Active Portfolio, which addresses the DIP obligations resulting from all new procurements by the Department of Defence and Military Veterans, with an imported content equal to or higher than US$ 2 million.
- The Pro-active Portfolio, which addresses all pre-emptive agreements with foreign companies whereby credits are banked in anticipation of future defence purchases by the South African Government.
- The Police Contracts Portfolio, which addresses DIP obligations resulting from all procurement of police services directed through Armscor.

THE STATUS OF THE FOUR DIP PORTFOLIOS AT 31 MARCH 2010 IS AS FOLLOWS:

Portfolio	**Number of Running Contracts**	**Number of Completed Contracts**	**Total Obligation** Rm	**Credits Passed During Current Financial Year** Rm	**Total Credits Passed To Date** Rm
SDPs	5	3	15 111	30	13 107
Active (SDA)	16	19	6 006	279	5 568
Police Contracts	3	1	140	2	100
Pro-Active SDPs	28	8	-	436	1 337
Total	**52**	**31**	**21 257**	**747**	**20 112**

THE DIP STATUS OF THE STRATEGIC DEFENCE PACKAGES AT 31 MARCH 2010:

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**
Corvettes	2 941	2 095	1 995	95	68	1 505	465	25
Submarines	1 121	1 121	1 121	100	100	749	364	8
Light Utility Helicopters	1 194	1 194	1 194	100	100	675	487	32
Hawk Aircraft	4 252	4 252	4 252	100	100	3 262	973	17
Gripen Aircraft	5 050	4 398	4 157	95	82	2 234	1 750	173
Maritime Helicopters	553	514	388	76	70	354	31	3
Total	**15 111**	**13 574**	**13 107**	**97**	**87**	**8 779**	**4 070**	**258**

Antenna testing at Paardefontein

Testing of vehicle stability at Gerotek

Vehicle testing at Gerotek

Recovered projectile launched from hot air balloon

The outstanding obligations currently present a low risk of non-achievement as they are all covered by sufficient and viable planned activities.

To date, the involvement of BBBEE companies in DIP activities has been a best effort attempt to support the Government's goal of transforming the South African economy. It has resulted in approximately R260 million of benefit accruing to BBBEE companies. However, during this year BBBEE benefit was firmly entrenched in the DIP process through an amendment to the DIP policy, which now prescribes a minimum percentage of the obligation to be discharged through BBBEE activities.

Active Portfolio

Although the DIP related to the SDPs is huge in size and magnitude, the DIP related to the normal Special Defence Account (SDA) acquisition continues to provide significant benefit to the local defence industry. Together with acquisitions managed on behalf of the SAPS, a variety of programmes such as Cytoon, GBADS, Hoefyster, Kingfisher and Klooster have delivered R5,668 million in benefits to date. In the last year alone, R281 million of DIP benefits have been realised.

2. ARMSCOR BUSINESS (PTY) LIMITED

Armscor Business (Pty) Limited is a wholly owned subsidiary of Armscor and is mandated to manage, support and maintain strategic facilities and essential defence industrial capabilities, resources and technologies as identified by the Department of Defence.

It must also maintain special capabilities and facilities which are regarded to be not commercially viable, but which may be required by the Department of Defence for security or strategic reasons. Armscor Business also provides defence operational research and management of technology projects, as required by the Department of Defence and supplies engineering as well as technical capability to the Department and Armscor.

Armscor Business exploits commercial opportunities that may arise out of Armscor's duty to acquire defence materiel or to manage technology projects.

Due to the nature of the services to be provided, as well as the newly developed funding model, where break-even strategies need to be implemented under a SLA between Armscor and the Department of Defence, the name of Armscor Business will be changed to Armscor Defence Institutes (Pty) Limited on 1 April 2010.

TESTING AND EVALUATION INSTITUTES

Gerotek testing facilities

Through its various business divisions, Gerotek supports the acquisition process of Armscor and the SANDF, test and driver training requirements from the defence industry and other commercial industries, as well as requirements from the SAPS.

Gerotek Testing Services provides accredited testing services to verify conformance of components, products or systems to set quality standards and specifications. Gerotek Events provides an environment in which these products and services can be introduced to the marketplace.

Gerotek Training provides accredited driver training services to ensure that vehicles are utilised in an appropriate and safe manner. The Sidibane restaurant and conference venue provides support to all these business units as part of a one-stop service. The Paardefontein National Antenna Range provides testing and evaluation required during the development and characterisation of antennae.

During the year under review, Gerotek maintained its ISO/IEC 17025 accreditation, its Transport Sector Education Training Authority (SETA) accreditation and the SABS/SASETA/ POLICE small-firearms training facility accreditation, which are all essential for service delivery. Gerotek also maintained its testing facilities and equipment, as well as expertise and skills, in order to comply with the SLA requirements.

Various capital equipment upgrades and replacement activities were completed. Among these were:

- the replacement of specialised measuring equipment for electromagnetic compatibility testing,
- procurement of a new control system for the vibration simulation facility,
- the replacement of the drive-in climate chamber facility, and
- upgrading of the measurement system at the Paardefontein Antenna Test Range.

This was done with the financial support of the local military industry. A new drive-by noise testing facility was established and this and several other new testing capabilities were added to the schedule of accredited services.

During the period under review services were provided for the Combined Vehicle Electric Drive Project and tests were performed on various military vehicle types. A number of military antennae were also evaluated by the Paardefontein Antenna Test Range.
Commercial activities were again prominent during the year under review, with an increase in international sales. The increased commercial activities contributed extensively to the positive financial results. A successful seminar on noise and vibration testing and measurement was hosted by Gerotek, in partnership with LMS International of Belgium.

Training was conducted, among others, for Anglo Coal and the SAPS. Altogether 2 000 policemen underwent driver training in partnership with Drivers-in-Motion. The School of Armour, the Air Force Gymnasium and the Military Police were also accommodated at the training facilities.

The focus for capital investment, in the short term, will be the upgrading and maintenance of some test tracks and access roads that require attention. The high incidence of crime also necessitates the continuous upgrading and maintenance of security measures and services.

Alkantpan Test Range

Alkantpan is a strategic ISO 9001 ballistic test range situated 70 km west of Prieska in the Northern Cape. The test range is centrally located to serve the South African defence industry and complies with the requirements for such terrain as a remote area, with low population density and flat topography, which is reconcilable with the required activities.

Surveillance and project-related weapon and ammunition tests are executed for the SANDF, ordinance industry and various foreign clients. To provide client-focused ordinance testing and related services of quality, the following capabilities with the latest technology were developed over the past 22 years:

- Engineers, technical specialists and explosives experts manage the various domains.
- The management of ballistic testing and related activities such as environmental testing, drop testing, unmanned aircraft testing, arena testing and recovery testing.
- Measurements and data analysis on pressure (Piezo and copper), muzzle velocity, tracking radars, stresses and strains, barrel temperatures, barrel wear and reliability and maintainability characteristics, etc.
- Weapons and ammunition operators in the domain of artillery, armour, mortars (120-mm, 81-mm, 60-mm, 82-mm systems), rockets (122-mm, 127-mm, 40-mm systems), rocket-rail testing systems, short-range missile systems, sub-munitions systems, insensitive munitions systems and surveillance testing systems.
- Support services in various workshops, stores, magazines, heavy-lifting machinery and cranes, transportation, accommodation, airstrip facilities up to C130 and the manufacturing of specified client-required items such as targets, mock-ups and weapon stands, as well as broadband Internet facilities to address client requirements.

International benchmarking results proved that one of Alkantpan's main drawbacks as a test range is the distance between the test range and foreign clients, and the transportation costs involved. To counter this problem, capital investments have been made in equipment such as mobile cranes and containers to handle large client consignments, and to streamline transportation activities.

During the period under review, new foreign client requirements provided opportunities for Alkantpan to explore new test methods, where equipment such as hot-air balloons were involved for the first time. Alkantpan marketing efforts for the past two years resulted in the range being utilised by the most international clients ever. New business clients from the Netherlands, Denmark and the UK visited the range; while Singapore remains the biggest international client.

Alkantpan continues its engagement with the Joint Steering Committee of Alkantpan and the Department of Tourism, Environment and Conservation of the Northern Cape in order to manage the rehabilitation of areas affected by testing activities, in line with environmental guidelines.

DEFENCE SCIENCE AND TECHNOLOGY INSTITUTES

Armour Development

This specialised division conducts continuous research and development to maintain and advance armour protection technologies. The continuous research and development also ensures the establishment of the industrial capability to timeously satisfy armour protection requirements over the entire threat spectrum in a cost-effective manner.

This service includes analysis of customer protection needs, development of armour, testing and qualification, vehicle-hull structural and ballistic design, as well as specifications for bonding or welding. This division has extensive experience in retro-fitting armour packages on main battle tanks, and the supply of modular adaptable armour packages for light and medium vehicles.

The research work, as contracted per project definition to the Defence Research and Development Board (DRDB) on Passive and Reactive Armours, was completed. The combat armour suite for the new-generation mechanised combat vehicle is in place. Activities over the past year concentrated on fitting interfaces, attachments and environmental testing of composites.
Development of protection against RPG-7 heat warheads is ongoing. At present, the following protection solutions are available: passive armour, reactive armour, hybrid passive/reactive and bar or slat armour. A protection solution against a very heavy, high-explosive anti-tank tandem warhead was successfully tested. The main charge of this warhead is capable of penetrating in excess of 1100-mm thick armour steel.

Non-conventional military actions are placing huge emphasis on protection against fragments from artillery shells and improvised explosive devices. Applicable solutions have been found for these threats. Development of protection against explosively formed projectiles has commenced.

Defence Institute

Defence Institute, a division of Armscor Business, is an organisation that focuses on the higher-system levels (level 5 and above of the system hierarchy defenition) over the total lifecycle of defence capabilities. The organisation comprises a team of scientists, engineers and operational specialists that render a broad range of services. Defence Institute supplies defence analysis, decision support, operational research and capability analysis to defence practitioners in the Department of Defence.

The scope of services inherent in this statement includes but is not limited to the following:

- Policy analysis – studies to support Department of Defence decision-makers in the formulation and/or implementation of policy regarding defence issues.
- War and conflict studies – analysis of past and future conflict and war-fighting trends, typologies, concepts, lessons learned and doctrine with a view to a better understanding of and insight into contextual aspects of conflict and war in order to inform and educate defence practitioners.
- Future studies and trend analysis – research into plausible futures as a context for defence planning and requirements setting.
- Environmental analysis – studying and monitoring the multi-dimensional operational environment.
- Defence capability analysis – support to the Department of Defence in the development and application of tools and methodologies to determine future defence capability requirements.
- Weapon system analysis – studies supporting the determination of high-level characteristics of weapon systems, trade-offs between possible alternatives, and lifecycle cost analyses.
- Operational analysis – study and analysis of current and past military-relevant operations (operational and tactical levels), with a view to supplying solutions to current problems and guidance for future operational requirements.
- Process development and support – development and application of governance in support of the management of defence capabilities, with specific focus on the role of core systems.

- Product system management support – support rendered to military personnel responsible for the management of level 5 product systems currently in operational use. Some of the key aspects of product systems to be managed are baseline management, materiel readiness, inventory control, operational performance measurement, operational data analysis, trend and tracking performance, and phase-out management.
- Integrated logistic support management services – the provisioning of comprehensive and integrative mechanisms and enablers for integrated logistic staff support to the SA Army in order to direct, control and coordinate the execution of cost-effective logistic and system management.

Applying multi- and inter-disciplinary methodologies with a joint and integrated focus, the Centre of Excellence, benchmarked against international norms and practices, delivers the services described above. The Defence Institute provides a continuous source of knowledge and skills to the client environment that also serves as a form of corporate memory for the Department of Defence. The Defence Institute – in terms of size, structure and capabilities – reflects and can be tailored to the current and future requirements of the client environment within investment and budgetary constraints. This is demonstrated by the projects currently being executed in order to satisfy requirements of the Department of Defence.

The main challenges experienced by the Defence Institute are the sustainability of capabilities in terms of retention and attraction of required resources, rejuvenation of the workforce and the financial sustainability in terms of effective management of the organisation. During the past year, the Defence Institute appointed several engineers, scientists and technical resources in order to restore the required capability. An alternative contracting model was also concluded during the past year, in order to ensure stable funding for the required capabilities.

Ergonomics Technologies (Ergotech)

Ergotech provides a comprehensive service in ergonomics (human factors) to the Department of Defence in order to satisfy the Department's requirement for a structured ergonomics programme.

The ergonomics programme is directed at ensuring the effective and efficient integration of ergonomics within all defence systems of the SANDF. Last year, the services included military ergonomics research, specification and design of human-machine systems and the evaluation of environmental stressors and human-machine systems.
Specialised health and safety investigations, unique to SANDF soldiers and the environment in which they have to operate, were also conducted. Ergotech was also responsible for the generation and maintenance of the soldier characteristics databases for the SANDF. These databases are critical for the successful integration of ergonomics into soldier equipment and systems within the context of the soldier's operating environment. The main objective is to provide an efficient, high-quality ergonomics service to the Department of Defence.

Research efforts within Ergotech are grouped into nine domains, namely

- anthropometry,
- biomechanics,
- human physiology,
- cognitive ergonomics,
- human performance,
- technology and capability maintenance,
- research equipment,
- design and specification support, and
- testing and evaluation support.

Some of the highlights that were achieved during the year under review are listed below.

- Within the anthropometry domain the anthropometric database of the SANDF was expanded through the addition of both conventional one-dimensional hand measurement data and three-dimensional size and shape data by means of a whole body scanner. The three-dimensional anthropometric data enables more detailed analysis of human body shapes and supports the design and evaluation capabilities of Ergotech for the Department of Defence.
- The impact of technology on human performance was investigated by studying the potential performance enhancement of head-up displays for navigation and information transfer for infantry application. Work on the theory of situational awareness, and its contribution to human performance, was also included in the work grouped within the human performance domain.
- Within the human physiology domain work was performed on fluid replacement strategies for soldiers performing high-intensity tasks under extreme environmental conditions. This work will continue in the next financial year.
- Ergotech was again involved in providing ergonomic inputs to various acquisition projects of the Department of Defence. Ergonomics specialist inputs were provided to the infantry fighting vehicle programme, the operational supply support transporter programme and to the command and control technology programme.

Flamengro

Flamengro is mandated to provide computer-based simulation, failure analysis support and consultative service to programme managers, the Department of Defence and the defence-related industry during product and system development. Specific research objectives are proposed and agreed upon by the DRDB. Work to achieve these objectives is jointly funded by the DRDB and a transfer payment.

Flamengro is maintaining a minimum sustainable capability in computer-aided engineering software and hardware, with specific emphasis on ballistics simulation, modelling, analysis and validation experiments. This is to be done in order to provide scientific and engineering support to the SANDF, as well as the defence industry on the design, development and operational use of artillery systems.

The type of work performed by Flamengro typically includes:

- static and dynamic structural analysis by the finite element method (FEM),
- fluid dynamic analysis, including fluid flow and heat transfer by means of computational fluid dynamic codes,
- internal, external and terminal ballistic analysis, modelling and simulation,
- short-time duration and large deformation analysis;
- stress analysis, and
- resonance analysis.

Flamengro is currently busy with projects such as the internal ballistic simulation capability, weapon launch response, ignition chain systems technology, artillery range extension (ProRam) and the sub-calibre barrel failure.

Hazmat Protective Systems

To protect individuals and soldiers against the majority of respiratory health hazards, Hazmat Protective Systems manufactures a comprehensive range of filter cartridges, canisters, and half- and full-face mask respirators. Canisters, cartridges and half-masks are also manufactured to benefit the workforce of companies in the mining, industrial, agricultural and private sectors of society.

Hazmat also manufactures impregnated activated carbon, which is used in cartridges, canisters and industrial filter applications. This technology was developed by the military in order to supply chemical and biological filters to the SANDF. Military carbons used in the manufacturing of filters for individual or collective protection is not readily obtainable and are controlled. Hazmat maintains this impregnation capability to ensure that the SANDF has access to military carbon product as and when needed.

To maintain the capabilities identified as strategic by the SANDF, and to develop new products, Hazmat works closely with Protechnik Laboratories to ensure that it has an active research and development infrastructure.

Hazmat's manufacturing process has been certified as ISO9001:2008 by TÜV Rheinland since 1994. All respiratory products are approved by the South African Bureau of Standards (SABS) and comply with the applicable military standard. Hazmat is currently the only local manufacturer of canisters and chemical and biological filters. Approval as an aircraft manufacturing organisation from the South African Civil Aviation Authority (SACAA) to manufacture shower water filters was also maintained.

The period under review was a challenge for Hazmat in light of the recession experienced. In spite of this, Hazmat still succeeded in achieving a modest surplus for the last four financial years. Hazmat is now a self-sufficient, sustainable entity that can serve the strategic needs of the Department of Defence as well as other commercial clients.

The compulsory standard on respiratory protection (EN143) necessitated that Hazmat reviewed its manufacturing processes. During the year under review, Hazmat initiated the procurement of equipment. This procurement process will be completed in the next financial year.

The technical and financial risks associated with the project are a major challenge. These risks include capital outlay in relation to Hazmat's income, the expected level of success of a new project, as well as unforeseen technological difficulties.

Institute for Maritime Technology

The Institute for Maritime Technology (IMT) was founded in 1975 to provide science-based technological support to the SA Navy.

Initially work undertaken at IMT was mainly centred on naval operations research and the establishment of underwater technology in the local defence research environment. As time went by, the scope of activities was continuously increased to meet the growing demands of the SA Navy.

However, over the past few years it has become evident that the costs of maintaining IMT at the current capacity level is outgrowing the available SANDF funds for maintenance, development and use of IMT facilities and capabilities. This situation has now become critical. To address this challenge a Department of Defence work group has been appointed to investigate alternatives for making IMT a sustainable service provider of the SANDF.

Nonetheless, over the past year IMT still performed in accordance with the requirements and expectations of its primary client, the SA Navy. This achievement is reflected in the highlights provided in the following paragraphs.

- A technology evaluation system, consisting of state-of-the-art commercial off-the-shelf computers, set up in a small network, was established at IMT. This system is configured to display real-time data from coastal radars and Automatic Identification System (AIS) receiver systems in support of developing a SA Naval understanding in the application of maritime domain awareness systems.
- In their exploratory research related to autonomous underwater vehicles (AUVs), IMT developed an algorithm to create a 3D model of an object on the seabed using a static fan-beamed laser mounted on an AUV. Another step in developing AUV technology was taken with the evaluation of a miniaturised underwater glider as a possible platform for underwater swarm agents.
- To assist in improving the interoperability of SA Navy vessels, as well as with other defence force assets, IMT assisted the SANDF in successful trials with corvettes, submarines and the Lynx helicopter.
- IMT also continued coordinating the local development of an active off-board decoy technology demonstrator. This decoy, if industrialised, could provide the SA Navy frigates with an effective countermeasure capability against most modern radar-seeker-based surface-to-surface missiles.
- In support of establishing a core mine countermeasure capability, IMT supported the SA Navy in developing a relevant and affordable concept of operations. This core capability, once established, will also gain from a sea-mine burial model with a map-based output that IMT validated through case studies undertaken in Durban and Port Elizabeth.
- A permanent onboard data-capturing system was successfully installed on the SAS Amatola. This system comprises the amalgamation of various data-capturing systems developed by IMT and provides a means of capturing combat system and navigation sensor data for the purposes of supporting both vessel-level and combat-system-level characterisation.
- In support of SA Navy fleet activities, IMT provided the submarine crew with a portable torpedo simulator that enables them to do combat system functional tests without having a torpedo on board; assisted with an investigation into isolated failures of submarine main battery cells; and conducted magnetic surveys in the port of Simon's Town to determine the optimal location for installation of the magnetic treatment facility.
- At the SA Navy Armaments Depot, IMT supplied preparation equipment to the torpedo countermeasures workshop. This included an evaluation tank and an automated nitrogen/glycol filling station. This equipment enables workshop personnel to prepare the torpedo countermeasure launcher for deployment on the submarines.
- IMT also assisted the SA Navy in developing the system specification for a shallow-water route survey system procured for the SA Navy Hydrographic Office. This system would be applied during the Soccer World Cup 2010 to enhance security at South African ports. In addition, an IMT team assisted the SA Navy in the planning and implementation of underwater security and environmental situational awareness activities associated with the World Cup.
- In further support to the SA Navy Hydrographic Office IMT assisted with the compilation of a document dealing with the concept of operations for hydrography and oceanography in the SA Navy, researched and developed the first South African exclusive economic zone (EEZ) map with numerically defined sea states by integrating public-domain-modelled datasets, and produced the first South African EEZ shipping densities map from AIS data.

In October 2009, IMT participated in the NATO infrared (IR) research task group-79 fall workshop in Quebec City. IMT was the only Institute from a non-NATO country to be invited. A presentation on IR work at IMT was well received and led to an invitation to the next NATO IR field trial in Germany in 2011. This invitation is a manifestation of the international status of the IMT electro-optical capability.

The IMT electro-optic group has also been involved in a joint atmospheric experiment with the Dutch Defence Research Institutes (TNO) since November 2009. The outcome of this experiment will lead to improvement of IMT electro-optic signature prediction models, backed by international publications on this research.

The year under review saw the tenth year of the Annual Simon's Bay Public Symposium to inform the public of Simon's Town about the ongoing results of health of the ocean research undertaken by IMT. Also in this year, IMT re-established the remote automatic weather station at Roman Rock Lighthouse in False Bay. The output of this weather station is now available to the public on the Internet at http://www.spaceweather.co.za/RomanRock.htm.

Protechnik Laboratories

Protechnik Laboratories is a research and development Institute performing project work in the field of chemical and biological defence on behalf of the SANDF.

Protechnik completed a number of divergent projects in the chemical and biological defence field at the request of the client.

It provides a unique service to the SANDF by utilising its cutting edge research infrastructure and unique human capital.

All DRDB project work (Project Romulus) was completed on time and within budget, and payment for this work was received. Similarly, all South African Medical Health Services (SAMHS) work was completed on time and within budget. The work was performed with two vacancies, which meant an increased workload on current staff. This resulted in a saving in the personnel budget, which in turn led to a significant profit.

Protechnik played an active role in training detection teams for the 2010 FIFA Soccer World Cup. By drawing on years of research experience within the Institute, course attendees were taught how to use various chemical and biological detectors, which were previously tested and evaluated at Protechnik. In addition to this, attendees were introduced to concepts of chemical and biological operations that have been developed by Protechnik in conjunction with SAMHS. A wide range of attendees were trained, including representatives from the SAPS and Fire Department, Emergency Medical Services and the SANDF.

A course in the detection of hazardous chemicals was presented to South African Revenue Service (SARS) personnel at OR Tambo International Airport. The course is aimed at assisting in the effective control of South African borders and imports with regard to controlled and hazardous chemicals.

Members of the Explosives Unit of the SAPS were trained in the use of new biological detection equipment that they purchased for the 2010 FIFA Soccer World Cup. Feedback received indicates their continued appreciation and delight in the service received from Protechnik. It made a significant contribution to South Africa's civil and military preparations for the 2010 FIFA Soccer World Cup.

Additional funding was obtained from the Department of Trade and Industry. This enabled Protechnik to procure a state-of-the-art analytical apparatus – the Agilent 6460 triple quadruple mass spectrometer, combined with an Agilent ultra-high-performance liquid chromatograph. The system, the first of its kind to be installed in South Africa, boasts unrivalled levels of sensitivity. It will aid Protechnik in the analysis of trace amounts of hazardous chemicals and their metabolites in environmental and biomedical samples.

The instrument will also facilitate effective participation in the Organisation for the Prohibition of Chemical Weapons proficiency tests, by aligning the Protechnik instrument use and methodologies with that of international laboratories.
Good progress was made with the genotyping of anthrax samples obtained from the Kruger National Park, and collaboration continues with the National Institute for Communicable Diseases and the Kruger National Park Veterinary Services. A strategic national knowledge-base, with special focus on anthrax lineages and identification, is currently under development.

Protechnik, with the assistance of Nicro Engineering, built a nuclear, biological and chemical (NBC) door station for the frigates. The NBC door station was successfully installed aboard the SAS ISANDHLWANA. The cost of the NBC door station is significantly less than the German product. A laboratory evaluation showed that it is as good as the imported version.

The laboratory facility at Alkantpan has been significantly improved. This will allow more work to be completed without bringing samples back to Protechnik. A transportable container-based laboratory is nearing completion, and will also be used. The container will house analytical equipment that will facilitate the rapid analysis of chemical samples produced during testing at Alkantpan. These systems will allow Protechnik to conduct original research at a site that is unique in the world.

3. DOCKYARD

The year under review was a challenging yet exciting one. It was the second year that the Dockyard has been under the management of Armscor, with both successes and challenges.

The key highlights of the year included, the successful execution of a number of SA Navy projects by the Dockyard, continual transformation initiatives and pursuance of commercial projects.

A SLA between the Dockyard and the SA Navy is under review and should be concluded in the next reporting period. This is deemed critical for ensuring clear service and performance measurements.

As part of the Dockyard's repositioning, a business strategy was developed. The SA Navy support requirements and the capability plan served as a basis for this strategy. Furthermore, the Dockyard value chain was developed, which ensures that the business processes, support structures and architecture are well defined and measurable. This will ensure a measurable and objective value proposition to the client.

Various options will be explored to achieve this, including securing realistic funding from the Department of Defence, undertaking further commercial projects and developing partnerships with strategic partners.

PROJECTS

The Dockyard was involved in a number of SA Navy projects on different vessels. These projects ranged from periodic vessel repairs, major upgrades and a number of ad hoc requirements as part of normal operations.

The primary focus during the year under review was on the major half-life refit to the replenishment vessel, SAS DRAKENSBERG which was the first major SA Naval project the Dockyard has undertaken in a number of years. A number of challenges were experienced, which were primarily a result of the scope of changes due to the age of the vessel. These had some impact on the envisaged timelines and contributed to the vessel being delivered late. However, overall the project was managed well by the joint SA Navy and Dockyard project team and delivered on time for its participation in the 2010 FIFA Soccer World Cup activities.

The refit of the mine counter vessel, SAS UMHLOTI, was also undertaken and the vessel is presently undergoing harbour trials and is due for handover to the SA Navy early in the new financial year.

A number of other vessels – ranging from frigates, submarines, tugs and small craft – were successfully serviced. Extensive support was also provided to naval shore-based facilities. This covered both planned and unplanned projects. A number of these projects formed part of the vessels to be deployed for the 2010 FIFA Soccer World Cup.

COMMERCIAL PROJECTS

The Dockyard's strength lies in its ship maintenance, repair and facilities capabilities. These form a draw card to both commercial ship owners and operators, especially the docking facilities.

The Dockyard has not yet been able to realise its full commercial potential due to a number of factors. The most notable was the re-establishment of a third-line maintenance capability for its primary client. The second was that naval vessels are tending to dry dock more frequently and for longer periods than planned, resulting in dry-docking facilities being unavailable for commercial projects. The Simon's Town dry dock was occupied by naval vessels for the entire year under review. Planned commercial revenue for this facility was thus not realised.

Notwithstanding this, thirty-nine smaller commercial dry dockings were undertaken on Armscor's two ship lifts – twenty in Simon's Town and nineteen in Durban. Some maintenance work was undertaken on vessels, which included the Robben Island Museum Ferry, MV Susan Kruger and the Department of Sea Fisheries' patrol vessel, MPV Lillian Ngoyi.

In an effort to diversify, the Dockyard was awarded a contract by the National Department of Public Works to restore a number of World War II relics on Robben Island. Work began in October 2009 and the project entails the repair of three 9,2-inch (237-mm) gun replacements, known as the De Waal Battery, which have fallen into a state of disrepair and have become a serious safety hazard. It is envisaged that the project will be completed by November 2010. At that time, the gun replacements will be safe for public access and preserved for decades to come, contributing to Robben Island's status as a world heritage site.

COMMERCIAL PARTNERSHIP

Armscor is evaluating a number of strategic partnerships. The final proposal and partnership agreement are under review. This exercise, including the necessary approvals, will be concluded over the next reporting period.

4. SUPPORT SERVICES

LOGISTICS AND MATÉRIEL SUPPORT

AB Logistics

AB Logistics Freight renders logistics services in support of the SANDF, the SADI and Armscor's strategic acquisition function. AB Logistics Freight is a registered and accredited customs-clearing agent with SARS and is a member of the International Federation of Freight Forwarders Association and the South African Association of Freight Forwarders. It obtained its registration during 2009 as a regulated agent, in accordance with SACAA part 108 regulations.

AB Logistics Freight is responsible for various logistics services associated with the supply chain, such as packaging, freight forwarding, chartering, road transportation, customs formalities, information and data capturing, complying with the various requirements during the importation and exportation processes. All these services are vital for Armscor acquisition process, the SANDF and the SADI, given the nature of the commodities handled, which must comply with the National Arms Control Regulations.

AB Logistics Freight has, through its international networks and capabilities, also extended its specialised services to other foreign defence forces. South Africa's international acceptance has resulted in joint military exercises being held between the SANDF and foreign defence forces.

AB Logistics has been at the forefront of rendering the logistical support required by visitors, compliance with the various arms control regulations, customs formalities, and freight forwarding of their military equipment during the importation and exportation processes.

During the year under review AB Logistics rendered logistical support to several joint military exercises held in South Africa, such as the German Exercise Good Hope IV, the UK exercise African Thorn and Exercise Golfinho by various Southern African Development Community (SADC) countries. These exercises took place in terms of official memoranda of understanding. Owing to the complexity of these types of shipments, the foreign defence forces had indicated their preference to task a logistical service provider that is part of the Department of Defence. Therefore, given AB Logistics' capability, competencies, accreditation and reputation of delivering exceptional customer service, they were a natural choice and contracted to render all logistical support services.

In terms of the Explosives Act, 2003 (Act 15 of 2003) and the Firearms Control Act, 2000 (Act 60 of 2000), AB Logistics Freight has maintained its registration as a registered transporter of hazardous cargo, weapons and ammunition. Therefore, AB Logistics continues to offer this specialised service to the SANDF, Armscor, foreign defence forces and the defence industry. During the year under review, AB Logistics experienced growth in the requests for this type of service from foreign clients and shipping lines, and assisted them with the transit of shipments of controlled items through South Africa.

Based on its diverse services and experience, AB Logistics is well placed to offer integrated logistics services such as packing, stuffing, lashing, customs clearance of air and sea freight shipments, as well as chartering of ships and aircraft. AB Logistics Freight provides transit warehousing facilities, marine insurance, customs tariff consultancy and computerised clearances linked with the SARS electronic data-interchange system, costing facilities, and a removal-in-bond cartage service.

The shipment of military commodities and explosives has become more complex due to limited shipping opportunities. Although the increase in sea piracy is seen as a real threat to future shipments of military and military-related cargo, AB Logistics is constantly exploring new shipping routes at cost-effective rates.

AB Logistics has played an important role in the shipping and customs clearance processes of the SDP equipment. Owing to the completion of the deliverables against the Hawk aircraft, light utility helicopters, cancellation of the Airbus A400M aircraft and other programmes, the utilisation of the special customs and excise manufacturing warehouse has ceased. The final reconciliations of the various projects are now in progress in order to finalise any outstanding liabilities with SARS Customs.

AB Logistics Travel is a registered member of the International Air Transport Association and the Association of South African Travel Agents. Its main business is to provide a 24-hour travel service to assist the Department of Defence, Armscor contractors and Armscor with all their defence- and project-related travel arrangements. This is done through the offices at Thaba Tshwane, Simon's Town and the Armscor head office. AB Logistics Travel offers a spectrum of travel services aimed at ensuring peace of mind for business executives during their domestic and international travels.

Defence Matériel Disposal

Defence Materiel Disposal (DMD) is a division of Armscor that is mandated to sell excess and obsolete defence materiel to the best advantage of the State on behalf of the Department of Defence. The defence materiel includes ammunition, aircraft, spares, vessels, and land and air-based equipment.

The sale of the defence materiel is carried out in accordance with the requirements of the Department of Defence and government-approved regulatory authorities such as the National Conventional Arms Control Committee and the National Proliferation Committee. Armscor, through DMD, also generated and transferred total revenue of R42 million. This income was generated mainly from the sale of 50 Ratel infantry fighting vehicles, and 55 Samil vehicles that were beyond economic repair.

As part of DMD's continued operational efficiency improvement, the number of warehouses was reduced from eight to five. DMD continues to successfully manage the remaining defence materiel warehouses at the following locations: DMD Naval Depot at Wingfield, Cape Town, DMD Air Force Depot in Thaba Tshwane, DMD MOD Centre Bloemfontein, DMD Army Depot at Wallmansthal and the Naval Stores Depot in Durban.

Armscor Defence Asset Management Centre

The Armscor Defence Asset Management Centre (ADAC) provides comprehensive logistic services support to the Chief of Logistics of the Department of Defence, Armscor Acquisition Department and the SADRI in the following areas:

- Armscor Asset Control Office (asset verification, damages and losses, as well as disposal services);
- Ammunition marking and packaging services;
- Stock control (management of Department of Defence SDA stock accounting);
- Intellectual Management Property Support (IPMS); and
- Document digitising services (digitising of all programme-related documents and Armscor documentation and availing them to owners electronically).

All these services form part of the SLA between Armscor and the Department of Defence.

Ammunition marking and packaging

The Ammunition Marking Section of ADAC made a major contribution in the development of ammunition and explosives marking policy, training manuals and a working handbook for the Department of Defence. The work included developing Catalogue No. 5, reflecting method-of-packing dimensions for inner and outer packaging, quantity items packed, unit load (UL) pallet layout details, UL volumes, etc. These documents were completed and signed by the Department of Defence.

The Infantry Division of Armscor's Acquisition Department made a special request that the head of the Ammunition Marking Section assisted in the development of night identification on mortar-bomb packaging for Project Hoefyster. It is the first time in South African history that this kind of packaging was developed for mortar bombs. Ammunition Marking played an important role in this project.

The Ammunition Marking Section was also involved in the establishment of the Munitions Defect Centre, and assisted in reorganising the exhibitions in the centre. The section will continue to be involved in an advisory capacity in future. The centre was moved from Pretoria Metal Pressing to the Ammunition Depot in Pretoria West. The School of Ammunition uses this centre to train SANDF personnel. On 16 October 2009 the centre was officially opened.

Stock control

The Stock Control Section of ADAC successfully completed a project of phasing out the Mirage through the Computer-aided Logistic Management Information System (CALMIS). The process entailed cleaning out 76 000 ledgers from October 2008, with a targeted completion date of 30 August 2009. The project was completed before target date on 22 July 2009.

Intellectual property management support

The IPMS Section manages acquisition-project intellectual property documents. This team had to reorganise its processes in order to accept intellectual property documents submitted with Government Order numbers. This is a new method of delivery, and was successfully implemented.

The IPMS Section took up ten new projects, of which seven were ammunition projects from Naschem in Cape Town, and the rest were from the Armscor Acquisition Department. These projects were successfully carried out.

Defence export support

The Defence Export Support (DES) is responsible for providing marketing support to the defence industry in respect of defence materiel, in consultation with the Department of Defence and the defence industries. DES has the following functions:

- **Shows and exhibitions**

The Shows and Exhibitions Section is responsible for promoting defence-related exports by assisting the industry in getting international exposure through participation in shows and exhibitions. With the support of the Department of Trade and Industry, during the year under review this section facilitated the participation of the defence industry at the following international defence exhibitions:

DSEI (UK), LAAD (Brazil), FIDAE (Chile), Milipol (France), Defexpo (India) and Lima (Malaysia). Planning is well underway for Africa Aerospace and Defence, which will take place in September 2010 at AFB Ysterplaat in Cape Town. These exhibitions provide a platform for the South African defence industry to market their products, services and capabilities to potential foreign customers and to enhance their export initiatives.

• Defence Equipment and Personnel Support

Defence Equipment and Personnel Support (DEPS) is the process leader in facilitating SANDF support to the defence industry by making its personnel, equipment (materiel) and facilities available to assist in the marketing initiatives of the domestic defence industry. In the year under review the DEPS Section processed 52 marketing and Matériel-aid requests from the defence industry. This included requests to conduct vehicle tests, lot acceptance ammunition proofs, training support to foreign pilots, SANDF personnel support for industry activities abroad and foreign visits to SANDF installations.

• Defence International Cooperation

The role of Defence International Cooperation is to provide an industrial ambassadorship service, interacting with military attachés (both foreign military attachés in South Africa and South African military attachés in international posts), foreign industry representatives and diplomats in support of Department of Defence and Military Veterans and SADRI initiatives.

This section was responsible, among other things, for the coordination of the participation of industry at the inaugural RSA-Kingdom of Saudi Arabia Defence Committee (DEFCOM) on 15 to 17 February 2010. As a result of this engagement, the Saudi Arabian Government opened a new defence advisory office for the first time in South Africa to strengthen relations between the two countries.

Armscor exhibited during Exercise Golfinho at Lohatla. Several delegates from SADC visited the Armscor stand and interest was shown in the SADRI logistics. The interested parties were referred to the relevant defence industries.

This section also facilitated the visit to Armscor by the Brazilian Minister for Development, Industry and Foreign Trade, who was accompanied by a delegation of industrialists during DEFCOM. The group was addressed by Armscor's Acquisition Department, Reutech Radar Systems, IVEMA, ATE, ZEISS and SAAB Avitronics.

• Market research

The Market Research Section is a new function that was established during the year under review in response to an industry requirement for such support. This section will be responsible for gathering, managing and disseminating defence industry information by means of seminars, courses, briefings, events, promotions, defence export reports and industry-performance and market-trend communiqués.

• Additional defence industry support activities

During the year under review, the DES was actively involved in the Steering Committee appointed to oversee the formulation of a defence sector strategy. This initiative to recognise the defence industry as a formal economic sector with its own customised support is led by the Department of Trade and Industry under the Aerospace Industry Support Initiative.

The Annual Defence Industry Day was held during March 2010. This event was primarily hosted by the Department of Defence and Military Veterans and supported by the aerospace, maritime and defence industries, Armscor and the Department of Trade and Industry. Several relevant issues were addressed and discussed in depth, for example the BBBEE requirements of Armscor, and industry support by the Department of Trade and Industry. The defence industry support presentation was accepted by the group and it is envisaged that future support in this field will grow. Armscor is tasked with establishing a steering committee to address the resolutions that were agreed to by all parties.

HUMAN RESOURCES

Human capital remains a key strategic asset for Armscor in achieving its goals. The Human Capital Strategy aims to enhance the effectiveness of the organisation through its knowledge resources. This will be achieved by ensuring that competent and high-performing employees, who live by organisation's values, are attracted and retained and thus ensuring that the organisation's mandate is fulfilled while offering rewarding careers.

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

Staff composition

The staff profile of Armscor, including Armscor Dockyard, as at 31 March 2010 per broad band, race and gender, is indicated on page 31.

ARMSCOR STAFF PROFILE INCLUDING ARMSCOR DOCKYARD:

BROAD BAND	AFRICAN		COLOURED		INDIAN		WHITE		TOTAL		GRAND
	M	F	M	F	M	F	M	F	M	F	TOTAL
EX	3	1	0	0	0	0	1	0	4	1	5
SU	9	3	1	0	3	1	39	3	52	7	59
MP	60	15	16	1	16	4	258	34	350	54	404
STS	45	50	30	12	9	9	46	87	130	158	288
AS	53	78	192	28	0	7	51	38	296	151	447
OS	39	28	49	4	0	0	1	0	89	32	121
TOTAL	**209**	**175**	**288**	**45**	**28**	**21**	**396**	**162**	**921**	**403**	**1324**
%	**15,79**	**13,22**	**21,75**	**3,40**	**2,11**	**1,59**	**29,91**	**12,24**	**69,56**	**30,44**	
	29,00%		**25,15%**		**3,70%**		**42,15%**		**100%**		
	57,85%						**42,15%**		**100%**		

EX = Executive; SU = Strategy Execution Unique Authority; MP = Management Professional; STS = Supervisory Technical Support; AS = Advanced/ Support Services; OS = Operational Services

ARMSCOR STAFF PROFILE EXCLUDING ARMSCOR DOCKYARD:

BROAD BAND	AFRICAN		COLOURED		INDIAN		WHITE		TOTAL		GRAND
	M	F	M	F	M	F	M	F	M	F	TOTAL
EX	3	1	0	0	0	0	1	0	4	1	5
SU	9	3	1	0	3	1	39	3	52	7	59
MP	58	15	12	1	16	4	252	34	338	54	392
STS	44	50	17	12	9	9	34	86	104	157	261
AS	46	75	17	20	0	6	6	33	69	134	203
OS	36	28	4	2	0	0	0	0	40	30	70
TOTAL	**196**	**172**	**51**	**35**	**28**	**20**	**332**	**156**	**607**	**383**	**990**
%	**19,80**	**17,37**	**5,15**	**3,54**	**2,83**	**2,02**	**33,54**	**15,76**	**61,31**	**38,69**	
	37,17%		**8,69%**		**4,85%**		**49,29%**		**100%**		
	50,71%						**49,29%**		**100%**		

EX = Executive; SU = Strategy Execution Unique Authority; MP = Management Professional; STS = Supervisory Technical Support; AS = Advanced/ Support Services; OS = Operational Services

Transformation

Transformation remains one of the key focus areas of the organisation. One of the strategic objectives is to transform the organisation in accordance with the employment equity requirements so as to reflect the population demographics. The Armscor Employment Equity Plan is the driver for the planning and execution of Armscor's transformation process. The Employment Equity Plan is monitored and reviewed annually.

As a consequence of employment equity plans and measures, Armscor's racial profile has since improved as follows since the mid-1990s:

- The percentage of black employees has grown from 20% in March 1996 to 51% by March 2010. (These figures exclude the Dockyard.)
- The percentage of female employees has grown from 34,49% in March 1999 to 38,69% by March 2010 (38,45% in March 2009). (These figures exclude the Dockyard.)

Transformation targets for 2009/10

Performance in this regard was driven by specific targets, action plans and continuous measurement and monitoring. The specific targets and achievements during the year were as follows:

Target	Actual performance
• Minimum of 81% of all new appointees in Armscor to be black	• 97,06% of all new appointments were black
• Minimum of 21% of external appointees in the technical functional groups to be women	• 30,43% of external appointees in the technical functional groups were women
• Minimum of 65% of external appointees in the non-technical functional groups to be women	• 51,11% of external appointees in the non-technical functional groups were women
• Minimum of 30% of employees in the broad band Supervisory and Technical Support (STS) and above to be women	• 30,46% of employees in the broad band STS and above are women

Cultural audit and employee satisfaction survey

An external service provider was contracted to conduct an independent cultural and employee satisfaction audit for Armscor in order to determine the prevailing organisational culture, recommend best suited organisational culture, identify the prevailing gaps, and to recommend actions for improvements. By the end of the financial year this exercise was completed and feedback given to both management and employees at Armscor. The recommended action plan is to be finalised in August 2010 and communicated to all employees. Progress against the recommended action plan will be reviewed quarterly.

Skills attraction, retention and rejuvenation

Skills attraction relates to the organisation's positioning as an employer of choice in order to attract high-calibre talent and compete for skills. The biggest need for transformation is in the technical employment bands. Activities in support of this objective will be managed within the Human Capital Strategy as well as the Stakeholder Strategy. The primary focus is the creation of a conductive organisational culture, while another focus is on branding and positioning Armscor as an employer of choice to both potential and current employees.

The age distribution of employees remains a major risk area for the organisation, and proactive and accelerated measures are in place, forming part of the Human Capital Strategy. The current average age of personnel is 46 years. For technical employees it is 47 years (46 in March 2009); for Armscor, excluding the Dockyard, it is 45 years; and for the Dockyard it is 49 years. More than 41,54% of the staff complement is older than 50 years, while 7,78% is older than 60 years. More than 47,07% (23,8% in March 2009) of the technical employees are older than 50 years and 8,94% are older than 60 years.

The retention of key technical capabilities remains a challenge in the current volatile labour market. However, the labour turnover has since decreased compared with previous years. The turnover for Armscor, excluding the Dockyard, during the different financial years was as follows:

- 2005/06: 4,82%;
- 2006/07: 7,6%;
- 2007/08: 8,9%;
- 2008/09: 8,1%; and
- 2009/10: 4,08%.

The turnover for the Dockyard was 7,23% for the 2009/10 financial year, compared with 10,3% for the previous year.

The turnover of black employees at Armscor, excluding the Dockyard, also decreased from 8,32% for the previous financial year to 5,73% for the year under review.

Even though Armscor's labour turnover is within acceptable norms, the retention rate of qualified technical employees (especially in the engineering and science categories) is curtailed. In response to this challenge, interventions and measures have been put in place and embedded in the human capital strategic objectives. Among these are detailed succession planning and development strategies, and transformation plans that include planned skills transfer programmes.

Skills development

It is important that Armscor retains, obtains and develops skills to achieve the organisational objectives. For this reason, skills development remains an important focus area. A number of initiatives have been ongoing in this area.

• Adult basic education and training

Armscor provided adult basic education and training (ABET) to fifteen Armscor and five other (i.e. SANDF) personnel. The courses offered focused on numeracy and literacy at ABET levels 1 to 4. However, numeracy and literacy do not ensure that ABET learners will be able to rise above menial chores, and even NQF level 1 qualifications would not be sufficient because of its academic orientation. The ABET programme has therefore been extended to provide training in useful business-related skills, such as basic computer skills and customer satisfaction. The programme was well received by learners and managers alike. It provided the opportunity for disadvantaged adults to integrate into the mainstream business activities.

• Talent Development Programme (TDP)

The TDP provides opportunities for newly qualified graduates, typically from designated groups, to gain meaningful experience in the Armscor work environment. The incumbents are contracted for periods ranging from one to two years, during which time they gain work experience while receiving formal coaching. In the past financial year, seventeen incumbents participated in the programme. All of them were from the BEE groups (sixteen African and one Indian) and six were female. Three were appointed in full-time positions upon completion of the programme.

In addition to the TDP, Armscor also has a bursary scheme serving as a feeder for the recruitment of new talent. Bursaries in engineering careers were granted to seven students, of which all were from the black groups. Of these, six were females and one was male.

• E-learning

E-learning is one of the platforms for the development of skills. The nature of the work environment of Armscor (e.g. time constraints, access to workstations and the Internet, and the self-discipline nature of the typical Armscor employee) is very suited for this kind of learning.

Courses are delivered to personnel via the Intranet-based Learner Management System (LMS). The LMS tracks the learners' progress and facilitates the learning process. Courses have been developed to meet Armscor's special needs, e.g. military culture and armaments acquisition. It also utilises off-the-shelf courses for generic skills like business management and computer skills.

E-learning is a viable means of skills development, as evidenced by the growing number of learners enrolling for the various courses. Some courses are, however, still presented using the traditional classroom delivery methods.

• Learnerships

The Services SETA sponsored nineteen Armscor staff members for a project management learnership, leading to National Certificate qualifications in project management, NQF level 4. This learnership consists of a blend of self-paced e-learning, coaching and workshops. Altogether sixteen learners completed it successfully, two were declared not yet competent and one person did not finish the learnership.

In addition, the Armscor Dockyard appointed 30 apprentice trainees on a structured four-year training programme in conjunction with the Services SETA.

• Armscor Management Leadership Programme

Critical leadership and management competencies have been identified for the organisation. An external service provider will be appointed by August 2010 through a tender process to present the Armscor Management and Leadership Programme. The programme will commence in the second quarter of the next financial year.

The career development models for acquisition management and the supporting development programmes are under review. One of the drivers of the review is to ensure alignment with the requirements for the professional registration of engineers with the Engineering Council of South Africa. The new model will be ready for implementation in the first quarter of the next financial year.

Corporate social investment

In line with Armscor's Corporate Social Investment (CSI) Strategy, Phelindaba Secondary School in Atteridgeville was adopted with the aim of assisting educators with learner performance and improving the school's year-end Matric results.

A five-year cooperation agreement between Armscor and Phelindaba Secondary School was signed in 2008, whereby Armscor's obligations to the school are as follows:

- Availing financial resources, as approved in the CSI budget;
- A teacher enhancement programme for Mathematics, Physical Science, English, Accounting and Geography;
- A learner education programme to enhance improved performance in the Mathematics, Physical Science, English, Accounting, and Geography; and
- Other educational interventions aimed at improving learners' performance in the above-mentioned subjects.

The goals set for 2009 were partly achieved. Given the results attained by Phelindaba Secondary School in 2009, a number of interventions have been put in place to mitigate negative effects in areas where satisfactory results have not been achieved. Such interventions include:

- The revision of the cooperation agreement to include specific targets aligned to a dedicated learner development programme (this agreement will be reviewed year-on-year).
- Obligations on the part of the school and related punitive measures for non-compliance.
- The formation of a core CSI team, whose primary responsibility will be to establish and oversee the successful implementation of such a programme.

It is envisaged that with these measures in place and with the school's overall commitment, the CSI objectives outlined in the Armscor policy will be fulfilled, namely providing interventions that seek to improve mathematical, engineering, science and technology results.

Labour relations

In January 2008 Armscor signed a recognition agreement with Solidarity holding a majority in menbership. In terms of the agreement, Armscor consults and negotiates with the union on all issues affecting conditions of employment.

Towards the end of 2009, the National Education and Allied Workers Union (NEHAWU) also received recognition and was granted organisational rights as they attained a "sufficient" representation of 30% of all employees. In terms of NEHAWU's recognition, they have the right of access to conduct their activities in the workplace during their own time. They also have a right to stop-order facilities, but their recognition excludes bargaining rights.

An employment equity committee is to be established by June 2010 to replace the Armscor Consultative Group (ACG) in order to support the transformation drive. The nomination process has been finalised, and all employees and unions participated in this process. The new committee will be announced in the next financial year.

QUALITY AND INFORMATION TECHNOLOGY

Industry quality audits and support

Working in a defence environment means that the credibility of suppliers is important. Every new company that intends to do business with Armscor has to be registered as a supplier. For the year under review, registration audits were carried out on 145 new suppliers to ensure that they are compliant with Armscor's requirement before orders can be placed.

The audit process is also done on companies that are already on the database. For the year under review, ninety-five of these suppliers were audited and the average performance was 89,9% against a performance target of 85%.

The demand for industry support has increased due to the growing number of BEE contractors, as well as a high staff turnover. This demand provides an opportunity for the Quality Department to support the Government's initiative of enterprise development. An initiative like this will, however, need more resources and be planned for in advance.

ISO 9001:2000 certification

In the previous report it was recorded that the transition to the ISO 9001:2008 standard had started. A re-certification audit was conducted by the SABS on 15 May 2009 to determine conformance to the standard. The outcome of this audit was a positive recommendation from the SABS Certification Board received on the 26 July 2009. A follow-up surveillance audit was conducted on 19 November 2009, and no non-conformances were raised.

Safety, health and the environment

Armscor recognises that the management of SHE has a positive impact on working conditions, productivity, and economic and social development. The right to a safe and healthy working environment is a fundamental human right. Armscor is committed to the promotion of a safe and healthy workplace and has implemented processes to create and enhance a culture of safety and health within the organisation.

SHE baseline safety audits comprising of aspects of OHSAS 18001 and the Occupational Health and Safety Act, 1993 (Act 85 of 1993), were conducted to establish the current level of legal compliance and conformance to a credible management system. Audits were conducted at the following sites:

- Alkantpan;
- Gerotek;
- IMT;
- Protechnik;
- Ergotek;
- Hazmat;
- Naval Dockyard Simon's Town ;
- Naval Dockyard Durban
- Head office complex.

Audit results showed a combined average of 76% compliance. This resulted in Armscor reviewing its corporate policy and strategy on SHE to proactively manage and enhance the workplace SHE in which it operates. The corporate policy and strategy on SHE is being considered for approval by the Management Board. The strategy will be rolled out across the organisation to achieve legal compliance and effectively manage the SHE environment.

Risk management is a fundamental element of the SHE management system and incorporates compliance to statutory and regulatory requirements. Risks are constantly being identified at various sites. Corrective and preventative actions are being implemented to mitigate these risks.

Armscor has made progress in training and informing its employees in matters relating to their safety, health and the environment across the organisation. This was done by appointing health and safety representatives and instituting health and safety committees. The rollout of SHE posters, videos and training days has boosted awareness among personnel across the organisation.

Security

Contact and interaction with the SADRI was maintained in order to promote security awareness within the defence acquisition environment. This was done to ensure the continued execution of security-related best practices.

A total of 389 defence contractors were security evaluated in the year under review, and 259 facility security clearance certificates were issued. The security status of defence suppliers in all functional security areas were found to be of a high standard.

Security baselines for 237 acquisition and technology projects were reconfirmed, and it was found that defence acquisition data and information repositories conformed to prescriptions.

A personnel security clearance status of 86% for valid security clearances within the defence acquisition environment were maintained with the rest in the re-vetting process.

Broad-based black economic empowerment

Transformation remains a strategic imperative at Armscor. The highlight for this year was the development of a BBBEE strategy that is aligned to the BBBEE Codes of Good Practice. This strategy focuses on two key areas, namely

- the transformation of Armscor; and
- the transformation of the defence industry.

The first initiative involved the assessment of Armscor's BBBEE status by an independent verification agency. The BBBEE level ratings range from 8 to 1, with 1 being the best. Armscor has been verified and achieved a level 6 rating. Our efforts in the following years will focus on improving our rating to level 4. Armscor also revised its BBBEE targets in order to align them with the BBBEE Codes of Good Practice.

The table below depicts the adjusted actual spending against targets set.

	Total expenditure	Target	BBEEE actual 2010*
Armscor operating budget	100% R24 430 000	65% R15 879 500	104,16% R25 445 333
Acquisition	100% R6 667 797 516	35% R2 333 729 131	50,31% R3 354 852 254
Armscor Business	100% R79 977 674	50% R39 988 837	66,40% R53 103 894
Armscor Dockyard	100% R45 875 507	50% R22 937 753	101,36 % R46 498 721

* BBBEE adjusted spending is based on recognition levels of up to 135%

Information and Communication Technology

A new corporate ICT strategy was developed and presented to the Board of Directors for approval. The strategy aims to improve the management information on forecasting, planning, scheduling, monitoring and control. It furthermore seeks to address the disparate and outdated technology platforms threatening governance process of the business by means of the IT applications renewal. This renewal requires R241 million for implementation, which is not available in the current budget. A request through the Department of Defence was made to National Treasury for addional funding.

Only the short-term plan of the strategy was approved, which involves conclusion of the contract with T-Systems, who is the IT outsourcing partner for preparing hybrid ICT services management, with emphasis on in-sourcing; and performance by an independent service provider of risk assessment in the ICT application environment.

In addition to the above, the Board of Directors requested that Armscor's ICT be benchmarked against other similar international organisations. Organisations that will be visited have been identified. This benchmarking exercise is planned for October to November 2010.

GROUP ANNUAL FINANCIAL STATEMENTS

ARMSCOR
Armaments Corporation of South Africa Ltd

REPORT OF THE AUDIT AND RISK COMMITTEE

The Audit and Risk Committee reports that it has adopted appropriate formal terms of reference as its Audit and Risk Committee Charter, and that is has discharged all of its responsibilities as contained therein.

Although the Armscor Board is accountable for the process of risk management and systems of internal control, these ongoing processes are reviewed by the Audit and Risk Committee for effectiveness.

The Audit and Risk Committee regularly reports to the Board on its activities, as well as on all recommendations made in the execution of its responsibilities.

The Audit and Risk Committee is satisfied, based on the information and explanations given by management and the Internal Audit Division, as well as through discussion with the Auditor-General on the result of their audits, that an adequate system of internal control is being maintained to

- reduce the entity's risk to an acceptable level
- meet the business objectives of the group
- ensure that the group's assets are safeguarded and
- ensure that the transactions undertaken are recorded in the entity's records.

The Audit and Risk Committee has evaluated the Annual Financial Statements of the of the ARSMCOR group for the year ended 31 March 2010. It complies, in all material respects, with the requirements of the Public Finance Management Act, 1999 (Act 1 of 1999), as amended, as well as the South African Statements of Generally Accepted Accounting Practice.

The Audit and Risk Committee agrees that the adoption of the going concern premise is appropriate in preparing the Annual Financial Statements. It therefore recommended the adoption of this Annual Report to the Board of Directors at its meeting on 4 August 2010.

Mr EL Borole
Chairperson

REPORT OF THE AUDITOR-GENERAL

TO PARLIAMENT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF ARMAMENTS CORPORATION OF SOUTH AFRICA LIMITED FOR THE YEAR ENDED 31 MARCH 2010

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

I have audited the accompanying consolidated financial statements of the Armaments Corporation of South Africa Limited, which comprise the consolidated and separate statement of financial position as at 31 March 2010, and the consolidated and separate statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory information, and the director's report, as set out on pages 43 to 102

Accounting Authority's responsibility for the consolidated financial statements

The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

As required by section 188 of the Constitution of South Africa and section 4 of the Public Audit Act of South Africa, my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with International Standards on *Auditing and General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 financial statements.

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

Opinion

In my opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of the Armaments Corporation of South Africa Limited as at 31 March 2010, and its consolidated and separate statement of comprehensive income and its consolidated and separate cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) and in the manner required by the PFMA and Companies Act of South Africa.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the PAA of South Africa and *General notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009* I include below my findings on the report on predetermined objectives, compliance with the PFMA, Companies Act, Armaments Corporation of South Africa Limited Act (Armscor Act) and financial management (internal control).

Findings

Predetermined objectives

There were no findings regarding predetermined objectives.

Compliance with laws and regulations

There were no findings regarding compliance with the PFMA, Companies Act and Armscor Act.

INTERNAL CONTROL

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the PFMA, Companies Act and Armscor Act, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters reported are limited to the deficiencies identified during the audit.

There are no deficiencies that were identified during the audit.

Auditor - General

Pretoria

30 July 2010

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 systems.

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

The Directors, supported by the Audit and Risk Committee, are satisfied that management introduced and maintained adequate internal controls 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 43 to 102 was approved by the Board of Directors on 4 August 2010.

Signed on behalf of the Board by

Dr PS Molefe
Chairman

COMPOSITION OF THE BOARD OF DIRECTORS

TERM OF OFFICE OF DIRECTORS

Board member	Date of appointment	Date of expiry	Date of re-appointment	Date of expiry	Date of re-appointment (2nd term)	Date of expiry of 2nd term	Term serve extended
Dr PS Molefe	1 October 2004	30 September 2007	1 October 2007 (Extension)	31 March 2008 (Expiry of Extension)	1 April 2008 (Re-appointment: 2nd term)	31 March 2011	1 term plus 22 months
Mr RP Meyer	1 October 2004	30 September 2007	1 October 2007 (Extension)	31 March 2008 (Expiry of Extension)	1 April 2008 (Re-appoinment: 2nd term)	31 March 2011	1 term plus 22 months
Mr HS Thomo (CEO)	10 July 2002	7 January 2010	Contract terminated on 07 January 2010				
Mr JS Mkwanazi (Acting CEO)			19 November 2009				
Mr EL Borole	1 May 2008	30 April 2011	-	-	-	-	23 months
Ms N Medupe	1 May 2008	28 February 2010 (Resigned)	-	-	-	-	22 months
Ms R Msiza	1 May 2008	30 April 2011	-	-	-	-	23 months
Ms V September	1 May 2008	30 April 2011	-	-	-	-	23 months
Mr LW Mosiako	1 May 2008	30 April 2011	-	-	-	-	23 months
Mr SA Msibi	1 May 2008	30 April 2011	-	-	-	-	23 months
Mr JG Grobler			11 September 2008		Appointment is linked to his position as the Chief Financial Officer		

COMPANY SECRETARY

Ms KL Mabeba	1 April 2009	30 April 2009	Acting Company Secretary
Ms NE Muhlwa	01 May 2009	30 September 2009	Acting Company Secretary
Adv CVV Ramphele	01 October 2009	31 July 2010	Contracted Company Secretary

AUDITORS
Auditor-General
BANKERS
ABSA Bank

REGISTRATION NUMBER
1968/008611/06

REGISTERED OFFICE
370 Nossob Street
Erasmuskloof Extension 4
Private Bag X337
0001 Pretoria

COMPANY SECRETARY
Adv CVV Ramphele
370 Nossob Street
Erasmuskloof Extension 4
Private Bag X337
0001 Pretoria

DIRECTORS' REPORT

CONTENTS

DIRECTORS' REPORT

Introduction

The Armaments Corporation of South Africa Limited ("Armscor") is a statutory body, established in terms of the Armaments Development and Production Act (Act No 57 of 1968), and its existence was continued in the Armaments Corporation of South Africa, Limited Act (Act No 51 of 2003).

Armscor is governed by the Public Finance Management Act (Act 1 of 1999), as amended (PFMA).
This report is therefore presented in terms of the provisions of the PFMA. It provides an overview on the performance of Armscor, measured against performance targets that the Corporation had set itself for the financial year under review.

CORPORATE GOVERNANCE

Board accountability

The Board of Directors adheres to the principles of good corporate governance as espoused in the PFMA, King II Report; later in the financial year King III was introduced and Protocol on Corporate Governance in the Public Sector. This entails the provision of an oversight over the management of assets of the Corporation diligently and in a fair and transparent manner. Reporting to the Shareholder was strengthened by a, Service Level Agreement and Corporate Plan, which ensured that the targets, measures and outputs are clearly articulated to enhance the Board's accountability.

The Board continued to assess the existing acquisition processes, identify and address weaknesses that might expose

the Corporation and Government to risk to ensure accountability and integrity. This is one of the responsibilities that is ongoing for the Board to ensure robust processes.

Good corporate governance requires that any organisation in conducting its business should take into account the policy and legislative imperatives of government. Armscor during the year under review prioritised human resources strategy which put in place clear targets with corresponding plan of action for transformation, succession planning and development of staff.

The Board, in discharging its obligations and to effectively fulfil its fiduciary role, is supported by the following subcommittees:

- Audit and Risk Committee;
- Human Resources Committee; and
- Executive Committee.

The Board as the Accounting Authority has delegated the Corporation's day-to-day management to the Management Board under the leadership of the Chief Executive Officer.

Schedule of attendance of Board and Board Committee meetings

The Board meets at least eleven times per year. The Company Secretary is responsible for ensuring both the effective functioning of the Board and the proper administration of the Board proceedings.

DETAILS OF ATTENDEES OF BOARD AND COMMITTEE MEETINGS 2009/10				
Names	**Board of Directors meetings**	**Audit and Risk Committee meetings**	**Human Resources Committee meetings**	**Executive Committee meetings**
Dr PS Molefe	11 out of 11	Non-member	Non-member	1 out of 1
Mr HS Thomo (CEO)[1]	8 out of 8	2 out of 2	2 out of 2	-
Mr JS Mkwanazi (Acting CEO)[2]	2 out of 3	2 out of 2	2 out of 2	1 out of 1
Mr RP Meyer	10 out of 11	3 out of 4	Non-member	0 out of 1
Ms N Medupe[3]	7 out of 10	4 out of 4	Non-member	Non-member
Mr EL Borole	11 out 11	4 out of 4	Non-member	1 out of 1 (Invitee)
Mr SA Msibi	10 out of 11	Non-member	4 out of 4	1 out of 1 (Invitee)
Mr LW Mosiako	9 out of 11	Non-member	4 out of 4	Non-member
Ms V September	11 out of 11	Non-member	3 out of 4	Non-member
Ms R Msiza	9 out of 11	Non-member	3 out of 4	Non-member
Mr JG Grobler (CFO)	10 out of 11	4 out of 4	Non-member	Non-member
[1] Suspended from the position of CEO on 18 November 2009; contract terminated on 7 January 2010.				
[2] Appointed as acting CEO on19 November 2009.				
[3] Resigned as a Board member on 28 February 2010.				

EXTERNAL MEMBERS

Name	**Board of Directors meetings**	**Audit and Risk Committee meetings**	**Human Resources Committee meetings**	**Executive Committee meetings**
Mr MD Nkhabu	Non-member	2 out of 4	Non-member	Non-member

Term of office expired with effect of 31 March 2010.

COMPANY SECRETARY

Name	**Board of Directors meetings**	**Audit and Risk Committee meetings**	**Human Resources Committee meetings**	**Executive Committee meetings**
Ms KL Mabeba[1]	1 out of 1	-	-	-
Ms N Muhlwa[2]	6 out of 6	2 out of 2	2 out of 2	-
Adv CVV Ramphele[3]	4 out of 4	2 out of 2	2 out of 2	1 out of 1

[1] Acting Company Secretary from 1 April 2009 to 30 April 2009.

[2] Acting Company Secretary from 1 May 2010 to 30 September 2010.

[3] Contracted Company Secretary from 1 October 2009 to 31 July 2010.

SPECIAL AND EXTRAORDINARY MEETINGS OF THE BOARD, COMMITTEES AND SUBCOMMITTEES 2009/10					
Names	**Special Board meeting**			**Special Audit and Risk Committee meetings**	**Special Human Resources Committee meetings**
	Strategic session	**Special Board meeting**	**Workshop**		
Dr PS Molefe	1 out of 2	2 out of 2	1 out of 2	Non-member	Non-member
Mr HS Thomo (CEO)	2 out of 2	2 out of 2	1 out of 2	0 out of 1	1 out of 1
Mr JS Mkwanazi (Acting CEO)*	1 out of 1	-	-	-	-
Mr RP Meyer	2 out of 2	1 out of 2	0 out of 2	1 out of 1	Non-member
Mr EL Borole	2 out of 2	2 out of 2	2 out of 2	1 out of 1	Non-member
Ms N Medupe	0 out of 1	0 out of 1	0 out of 2	1 out of 1	Non-member
Mr SA Msibi	2 out of 2	2 out of 2	0 out of 2	Non-member	2 out of 2
Ms V September	2 out of 2	2 out of 2	2 out of 2	Non-member	1 out of 2
Ms R Msiza	2 out of 2	2 out of 2	1 out of 2	Non-member	1out of 2
Mr LW Mosiako	2 out of 2	2 out of 2	2 out of 2	Non-member	1 out of 2
Mr JG Grobler (CFO)	2 out of 2	2 out of 2	2 out of 2	1 out of 1	Non-member

*Appointed as Acting CEO on 19 November 2009.

EXTERNAL MEMBERS					
Mr MD Nkhabu*	Non-member	Non-member	Non-member	0 out of 1	Non-member

* Term of office expired with effect of 31 March 2010.

COMPANY SECRETARY					
Ms NE Muhlwa	1 out of 1	N/A	1 out of 1	1 out of 1	1 out of 1
Adv. CVV Ramphele	2 out of 2	2 out of 2	1 out of 1	N/A	1 out of 1

Board subcommittees

The Board of Directors has the following subcommittees to strengthen the Board's oversight of the specific areas:

Audit and Risk Committee

This committee was chaired by a non-executive director and comprised four members, three of whom were non-executive directors and one an independent member. The committee operated under an approved Charter, which was revised in February 2010 to adjust it in accordance with King III and the Companies Act No 71 of 2008. The Chief Executive Officer, the Chief Financial Officer, and internal and external auditors attended meetings of the committee by invitation.

Human Resources Committee

The Human Resources Committee comprised four non-executive members, one of whom is the Chairperson of the Committee. During the year under review, the Committee, amongst other things, put much emphasis on the following: human resources strategy, re-look of the organisational structure (still in process) and leadership provided by the CEO.

Executive Committee

The Executive Committee comprises non-executive members and convenes under circumstances of extreme urgency only, i.e. where the matter cannot be delayed until the next scheduled board meeting. Only one executive committee meeting was held during the year under review.

Disqualification of Armscor directors

None of Armscor's Board members is disqualified from serving as directors on any of the grounds contained in either the Companies Act, 1973 (as amended) or the PFMA and its regulations.

REQUIREMENTS IN TERMS OF THE PROTOCOL ON CORPORATE GOVERNANCE IN THE PUBLIC SECTOR

Organisational structure

The organisational structure of the Corporation appears on page 3 of this report.

Significant events reported to the Executive Authority

No significant events were reported to the Executive Authority during the year under review.

Protocol for communication with shareholder

The Executive Authority for Armscor is the Minister of Defence and Military Veterans, who represents the Shareholder. The Board as the Accounting Authority of the Corporation reports to the Minister of Defence and Military Veterans. Communication with the shareholder is channelled primarily through the office of the Chairman. In addition, ad hoc meetings were held between the Minister and the Chairman. Regular reporting was undertaken in terms of the Shareholder's Compact, Quarterly Progress Reports and additional ad hoc reports were also submitted.

Litigation matters

• Litigation resulting from acquisition activities

During the reporting period under review, Armscor was involved in three civil matters. In one matter, action was instituted against Armscor for alleged breach of contract pertaining to a Value Added Tax (VAT) analytics agreement. The matter is proceeding in the Northern Gauteng High Court.

In the second matter, legal action was instituted against Armscor in the Civil Court of Lisbon in Portugal. The claim is for the recovery of commission in respect of a transaction which occurred in the late 1980s. A preliminary hearing of this matter was expected to be heard in the Portuguese Courts in the last quarter of 2009 but did not realise. A new date is set for 28 October 2010.

In the third matter, Armscor was involved in a dispute regarding the imposition of penalties. The matter was settled out of court by the parties resulting in Armscor withholding R150 000 of penalties not refunded.

As the above legal proceedings resulted from Armscor's role as acquisition agent of the Department of Defence no liability is reflected in Armscor's financial statements.

• Other matters

Armscor was also involved in one Labour matter emanating from an alleged constructive dismissal. The arbitrator at the CCMA found in favour of the applicant and Armscor is reviewing the arbitrator's award at the Labour Court. Although an amount of R 441 162 was awarded to the applicant, it is foreseen that the matter will be defended successfully in the Labour Court.

Armscor is also involved in a CCMA case that resulted from disciplinary action that was instituted against the former CEO, Mr HS Thomo, which resulted in his dismissal. Mr Thomo referred the matter to the CCMA alleging unfair dismissal. The matter was conciliated and a certificate of non resolution was issued. It is expected that the matter will be set down for arbitration in due course. As Armscor acted procedurally and lawfully in terminating the relationship, it is not foreseen that there will be any successful claim against Armscor.

Armscor Business (Pty) Ltd was involved in two civil matters during the reporting period. In one matter, Armscor Business instituted a recovery of damages suffered as a result of unlawful occupation of its premises by the defendant. The matter was settled during November 2009 after the defendent offered to pay the agreed amount of R376 000. In the second matter, Armscor Business was sued for the recovery of damages allegedly suffered as a result of breach of contract. The matter is still proceeding in the Northern Cape High Court and was adjudicated in Armscor's favour. A cost order was also made in favour of Armscor.

Post balance sheet events

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

Dockyard asset transfer

In terms of the Dockyard Transfer Agreement that governs the migration of the Naval Base Simon's Town to Armscor, Armscor will assume ownership of all assets and infrastructure associated with the operation of the Naval Dockyard Simon's Town.

Armscor will be required to economically maintain and manage the items effectively and efficiently in order that the service as agreed upon is delivered to the South African Navy.

The value of assets must, however, still be determined.

Destruction of facility

The Hazmat facility that manufactures a comprehensive range of filter cartridges, canisters, half- and full-face mask respirators to protect against respiratory health hazards was destroyed in a fire on 23 June 2010. Hazmat now faces the challenge to re-establish its manufacturing capability in the shortest possible time. Although Hazmat is not contributing significantly to the group financially, it renders a strategic service to the DOD.

Going Concern

Armscor's role of acquiring defence materiel on behalf of the Department of Defence was reconfirmed in the previous period under review. The Board has reviewed the Group's financial budgets for the period 1 April 2010 to 31 March 2011 and is satisfied that, even though a deficit is budgeted, adequate resources exist. However, Armscor is 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.

PERFORMANCE AGAINST GOALS

Operational objectives for the 2009/10 financial year

The Armscor Three-year Integrated Corporate and Business Plan defines eight objectives. The first five of these objectives are directly linked to Armscor's functions as defined in the Armscor Act, 2003. Two objectives deal with Armscor's BEE initiative, which is in support of the Government's Broad-Based Black Economic Empowerment Act, 2003 (Act 53 of 2003) (BBEEE Act) and the transformation of Armscor to reflect the demographics of the country while one objective addresses compliance with corporate governance principles.

These objectives are used to measure the performance of the corporation.

An overall efficiency measure used by Armscor is the cost of acquisition. This measure reflects the ratio of actual acquisition cost versus the acquisition cost based on the total forecasted acquisition activities (cash flow). A goal of 4,6% was set for the 2009/10 financial year. A result of 7,35% was achieved against actual, compared with 4,4% for the 2008/09 period. The goal for 2009/10 was not fully achieved, because the total of the acquisition activities (cash flow) was reduced significantly due to extension of milestone deliveries on acquisition projects, Airbus project cancellation and requirements not received from the DOD.

Armscor's subsidiary companies experienced a loss of R2,7 million, of which Armscor Business (Pty) Ltd contributed a surplus of R0,7 million against a set target of R3,5 million. The loss of the property companies amounted to R3,4 million, which consists of depreciation on buildings.

MEASUREMENT OF PERFORMANCE AGAINST ARMSCOR GROUP CORPORATE OBJECTIVES

Objectives 1 to 3

These goals measure the effectiveness of the acquisition function in terms of the SLA between Armscor and the Department of Defence and Military Veterans. The goal for the three acquisition categories is defined as follows:

- Contracts to be placed by Armscor: Measures the commitment of funds against the formally planned value of commitment, which is based on requirements received and confirmed as valid requirements from the Department of Defence and Military Veterans.
- Cash flow (contractual payments made): Cash flow measured against the formally planned cash flow in terms of achieved commitments for the financial year.

Objective 4 – Management of Defence Industrial Participation

This goal measures the execution of DIP obligations in terms of the SLA and in compliance with the Armscor Act.

Objective 5 – Management and execution of defence technology, research, and test and evaluation requirements for the Department of Defence and Military Veterans (measurement of effectiveness of Armscor facilities)

This goal measures the execution by Armscor Business of contractual milestones/deliveries as per orders received.

Objective 6 – Black economic empowerment

This goal measures the spending in compliance with the BBBEE Act.

Objective 7 – Human resources

This goal measures the achievement of targets set to transform Armscor to reflect the demographic profile of the country and to assist Armscor in having access to manpower to execute its mandated activities.

Objective 8 – Corporate governance

This goal measures compliance with corporate governance requirements.

ARMSCOR
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COMBINED

Objective 1: Category 1 – Capital defence matériel acquisition excluding strategic defence acquisition but including technology acquisition (projects)			
Key Performance Indicator	**Goal**	**Achieved**	**Performance against Goal**
1.1 Contracts to be placed by Armscor: Armscor's target of 90% commitment of funds to be measured against the formally planned value of commitment, which is based on requirements received and confirmed as valid from the Department of Defence.	90%	94,4%	The Department of Defence requirements to the value of R398 117 million were received. Armscor committed R375 965 million of the abovementioned funds, resulting in an achievement of 94,4% against the set target of 90%. **Objective exceeded**
1.2 Cash flow (contractual payments made): Armscor's target of 90% cash flow would be measured against the formally planned cash flow in terms of achieved commitments for the financial year.	90%	101%	The agreed planned cash flow for the financial year in order to execute the orders placed amounted to R2 168 276 million. Armscor managed to realise cash flow to the value of R2 192 728 million, resulting in an achievement of 101% against the set target of 90%. **Objective exceeded**
Objective 2: Strategic defence acquisition (Strategic Defence Packages)			
Key Performance Indicator	**Goal**	**Achieved**	**Performance against Goal**
2.1 Contracts to be placed by Armscor: Armscor's target of 90% of commitment of funds to be measured against the formally planned value of commitment, which is based on requirements received and confirmed as valid from the Department of Defence.	90%	94,86%	The Department of Defence requirements to the value of R57 605 million were received. Armscor committed R54 645 million of the abovementioned funds, resulting in an achievement of 94,86% against the set target of 90%. **Objective exceeded**
2.2 Cash flow (contractual payments made): Armscor's target of 90% cash flow would be measured against the formally planned cash flow in terms of achieved commitments for the financial year.	90%	94,84%	Formally planned cash flow for the financial year amounted to R1 705 935 million. Armscor managed to realise cash flow to the value of R1 617 828 million, resulting in an achievement of 94,84% against the set target of 90%. **Objective exceeded**
Objective 3: System support: Acquisition and procurement (Operating funds)			
Key Performance Indicator	**Goal**	**Achieved**	**Performance against Goal**
3.1 Contracts to be placed by Armscor: Armscor's target of 90% of commitment of funds to be measured against the formally planned value of commitment, which is based on requirements received and confirmed as valid from the Department of Defence.	90%	86,55%	The Department of Defence requirements received were to the value of R1 798 484 million. Armscor committed R1 556 623 million of the abovementioned funds, resulting in an achievement of 86,55% against the set target of 90%. **Objective achieved slightly below target**
3.2 Cash flow (contractual payments made): Armscor's target of 90% cash flow would be measured against the formally planned cash flow in terms of achieved commitments for the financial year.	90%	104%	Formally planned cash flow for the financial year amounted to R2 875 712 million. Armscor managed to realise cash flow to the value of R3 002 657 million, resulting in an achievement of 104% against the set target of 90%. **Objective exceeded**

COMBINED

Objective 4: Management of Defence Industrial Participation (DIP)			
Key Performance Indicator	**Goal**	**Achieved**	**Performance against Goal**
4.1 Value of DIP credits to be granted to overseas suppliers	R600m credits to be approved by 2010-03-31	R747m	DIP credits amounting to R747 million were approved. (Sales - R601.5 million, technology transfer - R142 million and investment - R3.5 million) **Objective exceeded**

Objective 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**
Armscor Business to achieve contractual milestones/deliveries as per orders received from Armscor as per financial year. 90% completion of contractual milestones/ deliveries at end of financial year	90%	91,58%	Armscor Business managed to deliver/render services to the value of R117 776 422 against the contractual milestones/deliveries of the orders received from Armscor with a value of R128 603 496. This results in an achievement of 91,58% against the set target of 90%. **Objective exceeded**

Objective 6: Black Economic Empowerment			
Key Performance Indicator	**Goal**	**Achieved**	**Performance against Goal**
Increase Armscor's spending in respect of Armscor's operating budget, SDA and GDA and Armscor Business' discretionary cost of sales on BEE companies as specified per category	Operating budget: 65%	104,16%	Spending on the operating budget achieved was 104,16% against a target of 65%. (Total purchases excluding parastatals amounts to R24 430 000. The total adjusted spent on BBBEE companies was R25 445 333.) **Objective exceeded**
	SDA and GDA: 35%	50,31%	Spending on the SDA and GDA achieved 50,31% against a target of 35%. (The target refers to BBBEE expenditure as a percentage of total acquisition project expenditure. An amount of R6 667 797 516 is the net figure excluding exemptions for the year and BBBEE expenditure was R3 354 852 254.) **Objective exceeded**
	Armscor Business: 50%	66,4%	Spending on cost of sales, operating expenses and capital achieved was 66,4%. The target was based on cost of sales, operating expenses and capital which amounted to R79 977 674 million. The total adjusted spent on BBBEE companies was R53 103 894. **Objective exceeded**
Note: Actual spending based on BBBEE recognition levels of up to 135%.	Armscor Dockyard: 50%	60,8%	Spending by Armscor Dockyard achieved 83,38% against a target of 50%. Total expenditure was R45 875 507. The total adjusted spent on BBBEE companies was R27 889 985. **Objective exceeded**

COMBINED

Objective 7: Human Resource Targets			
Key Performance Indicator	**Goal**	**Achieved**	**Performance against Goal**
7.1 Improve the demographic profile of Armscor to reflect the national and regional demographic profile	At least 81% of external appointees to be from Black Population Group	97,06%	97,06% of all external appointees were from Black Population Group. **Objective exceeded**
	At least 21% of external appointments in the technical functional groups to be women	30,43%	30,43% of all external appointees in the technical functional groups were women. **Objective exceeded**
	At least 65% of external appointments in the non-technical functional groups to be women	51,11%	51,11% of all external appointees in the non-technical functional groups were women. **Objective partially achieved**
	At least 30% of employees in the supervisory levels and above to be women	30,46%	30,46% off all employees in the supervisory levels and above were women. **Objective achieved**
7.2 Bursaries	Grant bursaries to 6 tertiary level students in line with Armscor's strategic manpower plans	7	7 tertiary students were granted bursaries. **Objective exceeded**
7.3 Talent Development Programme.	Have 12 trainees under the scheme	17	A total of 17 people went through the Talent Development Programme for the 2009/10 financial year. **Objective exceeded**

Objective 8: Corporate Governance			
Key Performance Indicator	**Goal**	**Achieved**	**Performance against Goal**
Armscor to obtain unqualified audit report and not receive negative audit report matters.	Unqualified report with not more than three audit report matters after final audit by the Auditor-General	Unqualified audit report with no matters raised	The annual audit for the 2009/10 financial year was completed and an unqualified audit opinion received. No audit report matters were raised in the Auditor-General's report. **Objective achieved**

ARMSCOR ONLY

Key Performance Indicator	Goal	Achieved	Performance against Goal
Objective 1: Category 1 Capital defence matériel acquisition excluding strategic defence acquisition but including technology acquisition (projects)			
1.1 Contracts to be placed by Armscor: Armscor's target of 90% of commitment of funds to be measured against the formally planned value of commitment, which is based on requirements received and confirmed as valid from the Department of Defence.	90%	94,4%	The Department of Defence requirements to the value of R398 117 million was received. Armscor committed R375 965 million of the abovementioned funds, resulting in an achievement of 94,4% against the set target of 90%. **Objective exceeded**
1.2 Cash flow (contractual payments made): Armscor's target of 90% cash flow would be measured against the formally planned cash flow in terms of achieved commitments for the financial year.	90%	101%	The agreed planned cash flow for the financial year in order to execute the orders placed amounted to R2 168 276 million. Armscor managed to realise cash flow to the value of R2 192 728 million resulting in an achievement of 101% against the set target of 90%. **Objective exceeded**
Objective 2: Strategic defence acquisition (Strategic Defence Packages)			
Key Performance Indicator	**Goal**	**Achieved**	**Performance against Goal**
2.1Contracts to be placed by Armscor: Armscor's target of 90% of commitment of funds to be measured against the formally planned value of commitment, which is based on requirements received and confirmed as valid from the Department of Defence.	90%	94,86%	The Department of Defence requirements to the value of R57 605 million were received. Armscor committed R54 645 million of the abovementioned funds, resulting in an achievement of 94,86% against the set target of 90%. **Objective exceeded**
2.2 Cash flow (contractual payments made): Armscor's target of 90% cash flow would be measured against the formally planned cash flow in terms of achieved commitments for the financial year.	90%	94,84%	Formally planned cash flow for the financial year amounted to R1 705 935 million. Armscor managed to realise cash flow to the value of R1 617 828 million, resulting in an achievement of 94,84% against the set target of 90%. **Objective exceeded**
Objective 3: System support: Acquisition and Procurement (Operational funds)			
Key Performance Indicator	**Goal**	**Achieved**	**Performance against Goal**
3.1 Contracts to be placed by Armscor: Armscor's target of 90% of commitment of funds to be measured against the formally planned value of commitment, which is based on requirements received and confirmed as valid from the Department of Defence.	90%	86,55%	Department of Defence requirements received to the value of R1 798 484 million. Armscor committed R1 556 623 million of the abovementioned funds, resulting in an achievement of 86,55% against the set target of 90%. **Objective achieved slightly below target**
3.2 Cash flow (contractual payments made): Armscor's target of 90% cash flow would be measured against the formally planned cash flow in terms of achieved commitments for the financial year.	90%	104%	Formally planned cash flow for the financial year amounted to R2 875 712 million Armscor managed to realise cash flow to the value of R3 002 657 million resulting in an achievement of 104% against the set target of 90%. **Objective exceeded**

ARMSCOR ONLY

Objective 4: Management of Defence Industrial Participation (DIP)			
Key Performance Indicator	**Goal**	**Achieved**	**Performance against Goal**
Value of DIP credits to be granted to overseas suppliers.	R600 million credits to be approved by 2010-03-31	R747 million	DIP credits amounting to R747 million were approved. (Sales - R601.5 million, technology transfer - R142 million and investment - R3.5 million) **Objective exceeded**

Objective 5: Black Economic Empowerment			
Key Performance Indicator	**Goal**	**Achieved**	**Performance against Goal**
Increase Armscor spending in respect of Armscor operating budget, SDA and GDA Accounts and Armscor Business' discretionary cost of sales on BEE companies as specified per category.	Operating budget: 65%	104,16%	Spending on the operating budget achieved 104.16% against a target of 65%. (Total purchases excluding parastatals is R24 430 000. The total adjusted spent on BBBEE companies was R25 445 333). **Objective exceeded**
	SDA & GDA: 35%	50,31%	Spending on the SDA and GDA accounts achieved 50.31% against a target of 35%. (The target refers to BBBEE expenditure as a percentage of total acquisition project expenditure. R6 667 797 516 is the net figure excluding exemptions for the year and the adjusted BBBEE expenditure was R3 354 852 254.) **Objective exceeded**
	Armscor Dockyard: 50%	60,8%	Spending by Armscor Dockyard achieved 83,38% against a target of 50%. Total expenditure was R45 875 507. The total adjusted spent on BBBEE companies was R27 889 985. **Objective exceeded**

Objective 6: Human resource targets			
Key Performance Indicator	**Goal**	**Achieved**	**Performance against Goal**
6.1 Improve the demographic profile of Armscor to reflect the national and regional demographic profile.	At least 81% of external appointees to be from Black Population Group	100%	100% of all external appointees were from Black Population Group. **Objective exceeded**
	At least 21% of external appointments in the technical functional groups to be women	28,57%	28,57% of all external appointees in the technical functional groups were women. **Objective exceeded**

ARMSCOR ONLY

Key Performance Indicator	Goal	Achieved	Performance against Goal
	At least 65% of external appointments in the non-technical functional groups to be women.	45,71%	45,71% of all external appointees in the non-technical functional groups were women. **Objective partially achieved**
	At least 30% of employees in the supervisory levels and above to be women.	32,82%	32,82% off all employees in the supervisory levels and above were women. **Objective achieved**
6.2 Bursaries	Grant bursaries to 6 tertiary level students in line with Armscor's strategic manpower plans.	7	7 tertiary students were granted bursaries. **Objective exceeded**
6.3 Talent Development Programme	Have 12 trainees under the scheme	14	A total of 14 people went through the Talent Development Programme for the 2009/10 financial year. **Objective exceeded**
Objective 7: Corporate governance			
Key Performance Indicator	**Goal**	**Achieved**	**Performance against Goal**
Armscor to obtain unqualified audit report and not receive negative audit report matters.	Unqualified report with not more than three audit report matters after final audit by the Auditor-General	Unqualified audit report with no matters raised	The annual audit for the 2009/10 financial year was completed and an unqualified audit opinion received. No audit report matters were raised in the Auditor-General's report. **Objective exceeded**

ARMSCOR BUSINESS ONLY

Objective 1: Management and execution of defence technology, research, test and evaluation requirements of the Department of Defence			
Key Performance Indicator	**Goal**	**Achieved**	**Performance against Goal**
1.1 Armscor Business to achieve contractual milestones/deliveries as per orders received from Armscor as per financial year. 90% completion of contractual milestones/ deliveries at end of financial year.	90%	91,58%	Armscor Business managed to deliver/render services to the value of R117 776 422 against the contractual milestones/deliveries of the orders received from Armscor with a value of R128 603 496. This results in an achievement of 91,58% against the set target of 90%. **Objective exceeded**
Objective 2: Black Economic Empowerment			
Key Performance Indicator	**Goal**	**Achieved**	**Performance against Goal**
Increase Armscor Business spending in respect of Armscor Business discretionary cost of sales and operating expenses on BEE companies as specified per category. Note: Adjusted spending based on BBBEE recognition levels of up to 135%	50%	66,4%	Armscor Business increased its BEE spending to 66,4% during the year. The total spending on discretionary cost of sales and operating expenses (after taking out non-discretionary spending i.e. other government departments, foreign business and inter-departmental business) amounted to R79,9 million and the BEE spending in terms of the Codes of good practic amounted to R53,1 million. **Objective exceeded**
Objective 3: Human resource targets			
Key Performance Indicator	**Goal**	**Achieved**	**Performance against Goal**
3.1 Improve the demographic profile of Armscor Business to reflect the national and regional demographic profile	At least 81% of external appointees to be black	87,8%	87,8% of all external appointees were black. **Objective exceeded**
	At least 21% of external appointments in the technical functional groups to be women	33,3%	33,3% of all external appointees in the technical functional groups were women. **Objective exceeded**
	At least 65% of external appointments in the non-technical functional groups to be women	71,43%	71,43% of all external appointees in the non-technical functional groups were women. **Objective exceeded**
	At least 30% of employees in the supervisory levels and above to be women	24,23%	24,23% off all employees in the supervisory levels and above were women. **Objective partially achieved**

ARMSCOR BUSINESS ONLY

Key Performance Indicator	Goal	Achieved	Performance against Goal
3.2 Talent Development Programme	Have 3 trainees under the scheme	3	Armscor Business had 3 trainees on the Talent Development Programme for the 2009/10 financial year. One was appointed permanently during the year. **Objective achieved**
Objective 4: Corporate governance			
Key Performance Indicator	**Goal**	**Achieved**	**Performance against Goal**
Armscor Business to obtain an unqualified audit report and not receive negative audit report matters.	Unqualified report with not more than three audit report matters after final audit by the Auditor-General	Unqualified audit report with no matters raised	The annual audit for the 2009/10 financial year was completed and an unqualified audit opinion received. No audit report matters were raised in the Auditor-General's report. **Objective exceeded**

GROUP FIVE YEAR REVIEW AT 31 MARCH 2010

	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm
STATEMENT OF FINANCIAL POSITION					
NET ASSETS					
Property, plant and equipment	216.4	214.6	203.3	197.9	194.6
Intangible assets	0.5	0.3	0.2	0.2	-
Other non current financial assets	8.3	14.4	30.0	68.5	-
Other non current financial liabilities	(6.6)	(11.5)	(24.0)	-	-
Net current assets	239.6	269.4	250.8	170.5	204.9
Retirement benefit asset	94.7	80.0	54.3	33.5	13.1
Retirement benefit liability	(16.2)	(14.7)	-	-	-
	536.7	**552.5**	**514.6**	**470.6**	**412.6**
EQUITY AND LIABILITIES					
Ordinary shareholders' interest	536.7	552.5	514.6	470.6	412.6
STATEMENT OF COMPREHENSIVE INCOME					
REVENUE					
Sale of goods	1,094.4	1,533.0	967.0	1,236.9	736.2
Allocation from the State budget for operating and technology expenditure	528.9	479.0	415.6	347.6	315.4
Finance income	30.3	45.8	35.7	25.7	19.7
Rental income	31.6	28.7	26.2	23.8	21.6
Other income	16.4	19.3	17.5	19.6	14.5
	1,701.6	**2,105.8**	**1,462.0**	**1,653.6**	**1,107.4**
SURPLUS/(DEFICIT) FOR THE YEAR	(15.8)	37.9	44.0	58.0	14.8
TOTAL VALUE OF ACQUISITION ACTIVITIES					
Special Defence Account	5,507.8	9,114.7	7,794.0	8,003.5	7,408.3
General Defence Account	1,308.6	1,125.3	807.3	832.1	834.0
SA Police Service	108.0	168.9	108.6	175.9	159.3
Other	106.9	77.3	102.0	19.4	4.3
	7,031.3	**10,486.2**	**8,811.9**	**9,030.9**	**8,405.9**

GROUP VALUE-ADDED STATEMENT FOR THE YEAR ENDED 31 MARCH 2010

The statement shows the wealth 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 wealth 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.

	2010 Rm	%	2009 Rm	%
Sale of goods and services	1,094.4		1,533.0	
Government grant	528.9		479.0	
Rental income	31.6		28.7	
Other income	16.4		19.3	
Finance income	30.3		45.8	
Revenue	1,701.6		2,105.8	
Less: Paid to suppliers for materials and services	(1,100.6)		(1,514.1)	
TOTAL VALUE ADDED	**601.0**	**100**	**591.7**	**100**
DISTRIBUTED AS FOLLOWS:				
To employees as salaries, wages and other benefits	581.5	96	519.4	88
Finance charges	1.3	-	1.6	-
To Government as taxation	9.8	2	7.9	1
TOTAL VALUE ADDED DISTRIBUTED	592.6	98	528.9	89
Portion of value added reinvested to sustain and expand the business	8.4	2	62.8	11
TOTAL VALUE ADDED DISTRIBUTED AND REINVESTED	**601.0**	**100**	**591.7**	**100**
TAXATION				
Paid in taxes to Government				
■ Rates and taxes to local authorities	9.8		7.9	
Collected on behalf of, and paid over to Government				
■ Employees taxation deducted from remuneration paid	114.2		111.5	
■ Unemployment Insurance Fund	2.0		1.9	
■ Net value added taxation (VAT)	64.4		60.5	
	180.6		**173.9**	

ARMSCOR GROUP FINANCIAL RESULTS FOR THE YEAR ENDED 31 MARCH 2010

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

STATEMENT OF FINANCIAL POSITION

The net value of group assets of R536,7 million shows a decrease compared with the previous year's figure of R552,5 million. Investments and cash form a substantial part of the assets and are reserved to finance specific future obligations.

STATEMENT OF COMPREHENSIVE INCOME

Total income for the group decreased to R1 701,6 million (2009: R2 105,8 million) for the financial year. Included in revenue was an amount of R528,9 million (2009: R479,0 million) which was received from the state in the form of a transfer payment. The increase in the allocation included an amount of R94,0 million (2009: R85,9 million) in respect of the Armscor Dockyard that Armscor took over on 1 September 2007.

The financial results of the group decreased by R53,7 million to a deficit of R15,8 million for the year under review, compared with a decrease of R6,1 million that resulted in a surplus of R37,9 million the previous year.

The most significant reasons for the decrease from a surplus increase to deficit compared to previous reporting periods are as follows:

	2010 Rm	2009 Rm
■ Increase in gross margin	17.4	30.3
■ Increase in other income	-	4.3
■ Increase in government allocation	49.9	63.4
■ Increase in operating expenditure	(108.6)	(109.8)
■ Increase/(decrease) in net finance income	(15.2)	8.5
■ Decrease/(increase) in fair value adjustments	2.8	(2.8)
NET DECREASE	(53.7)	(6.1)

The increase in the Government grant is to defray the cost of the group's operations for the year under review and to ensure that Armscor's contracted service delivery to the Department of Defence (DOD), in terms of the Service Level Agreement (SLA), is effectively and efficiently met. The group's operating expenditure was higher than what was budgeted for mainly due to overspending by the Dockyard.

The deficit of the subsidiaries for the year under review was R2,7 million compared to a deficit of R7,0 million for the previous year and is detailed as follows:

	2010 Rm	2009 Rm
Movement in:		
■ Surplus/(deficit) from operations	(7.0)	(15.4)
■ Net finance income	4.3	8.4
	(2.7)	(7.0)

Armscor Business (Pty) Ltd contributed a surplus of R0,7 million (2009: deficit R3,5 million) against a set target of R3,5 million surplus (2009: R7,7 million deficit). The deficit of the property companies amounts to R3,4 million (2009: R3,5 million), relating to depreciation on buildings.

STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH 2010

CORPORATION				GROUP	
2009 Rm	2010 Rm		NOTES	2010 Rm	2009 Rm
		ASSETS			
		NON-CURRENT ASSETS			
38.2	37.5	Property, plant and equipment	16	216.4	214.6
-	-	Intangible assets	17	0.5	0.3
14.4	8.3	Other non-current financial assets	18	8.3	14.4
69.3	80.1	Retirement benefit asset	30	94.7	80.0
121.9	**125.9**			**319.9**	**309.3**
		CURRENT ASSETS			
1.1	1.4	Inventories	19	2.8	6.1
139.8	118.6	Trade and other receivables	20	153.1	165.6
343.3	345.6	Cash and short term deposits	21	341.1	336.2
180.0	180.0	Investment in subsidiaries	25	-	-
664.2	**645.6**			**497.0**	**507.9**
786.1	**771.5**	**TOTAL ASSETS**		**816.9**	**817.2**
		EQUITY AND LIABILITIES			
		CAPITAL AND RESERVES			
75.0	75.0	Ordinary share capital	22	75.0	75.0
425.4	412.3	Non-distributable reserves		461.7	477.5
500.4	**487.3**	**ORDINARY SHAREHOLDERS INTEREST**		**536.7**	**552.5**
		LIABILITIES			
		NON-CURRENT LIABILITIES			
11.5	6.6	Other non-current financial liabilities	23	6.6	11.5
14.7	16.2	Retirement benefit liability	30	16.2	14.7
26.2	**22.8**			**22.8**	**26.2**
		CURRENT LIABILITIES			
69.3	56.2	Loans from subsidiaries	24	-	-
129.3	139.8	Trade and other payables	25	169.7	158.6
60.9	65.4	Provisions	26	87.7	79.9
259.5	**261.4**			**257.4**	**238.5**
285.7	**284.2**	**TOTAL LIABILITIES**		**280.2**	**264.7**
786.1	**771.5**	**TOTAL EQUITY AND LIABILITIES**		**816.9**	**817.2**

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2010

CORPORATION				GROUP	
2009 Rm	**2010 Rm**		**NOTES**	**2010 Rm**	**2009 Rm**
1,348.4	888.3	Revenue	2	1,094.4	1,533.0
(1,308.5)	(856.1)	Cost of sales	3	(932.8)	(1,388.8)
39.9	**32.2**	**GROSS SURPLUS**	4	**161.6**	**144.2**
53.9	51.4	Other operating revenue	5	48.0	48.0
479.0	528.9	Government grants	6	528.9	479.0
(560.9)	(650.2)	Operating expenses	7	(783.3)	(674.7)
11.9	**(37.7)**	**OPERATING SURPLUS/(DEFICIT)**	8	**(44.8)**	**(3.5)**
45.8	30.2	Investment revenue	9	30.3	45.8
(2.8)	-	Fair value adjustments	10	-	(2.8)
(10.0)	(5.6)	Finance costs	11	(1.3)	(1.6)
44.9	**(13.1)**	**TOTAL COMPREHENSIVE (DEFICIT)/SURPLUS**		**(15.8)**	**37.9**

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2010

	SHARE CAPITAL	MARKETING PROMOTION RESERVE	CAPITAL AND BUILDING MAINTENANCE RESERVE	COMPUTER UPGRADING RESERVE	INTERNAL INSURANCE RESERVE	GENERAL RESERVE	TOTAL EQUITY
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
GROUP							
Balance at 1 April 2008	**75.0**	**10.1**	**22.6**	**15.0**	**25.4**	**366.5**	**514.6**
Changes in equity							
Total comprehensive income for the year	-	-	-	-	-	37.9	37.9
Transfer to/(from) reserves	-	0.5	-	-	1.6	(2.1)	-
Total changes	-	0.5	-	-	1.6	35.8	37.9
Balance at 1 April 2009	**75.0**	**10.6**	**22.6**	**15.0**	**27.0**	**402.3**	**552.5**
Changes in equity							
Total comprehensive deficit for the year	-	-	-	-	-	(15.8)	(15.8)
Transfer to/(from) reserves	-	-	-	-	(2.0)	2.0	-
Total changes	-	-	-	-	(2.0)	(13.8)	(15.8)
Balance at 31 March 2010	**75.0**	**10.6**	**22.6**	**15.0**	**25.0**	**388.5**	**536.7**
CORPORATION							
Balance at 1 April 2008	**75.0**	**10.1**	**22.6**	**15.0**	**25.4**	**307.4**	**455.5**
Changes in equity							
Total comprehensive income for the year	-	-	-	-	-	44.9	44.9
Transfer to/(from) reserves	-	0.5	-	-	1.6	(2.1)	-
Total changes	-	0.5	-	-	1.6	42.8	44.9
Balance at 1 April 2009	**75.0**	**10.6**	**22.6**	**15.0**	**27.0**	**350.2**	**500.4**
Changes in equity							
Total comprehensive deficit for the year	-	-	-	-	-	(13.1)	(13.1)
Transfer to/(from) reserves	-	-	-	-	(2.0)	2.0	-
Total changes	-	-	-	-	(2.0)	(11.1)	(13.1)
Balance at 31 March 2010	**75.0**	**10.6**	**22.6**	**15.0**	**25.0**	**339.1**	**487.3**

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2010

CORPORATION				GROUP	
2009 Rm	2010 Rm		NOTES	2010 Rm	2009 Rm
		OPERATING ACTIVITIES			
1,777.4	1,489.8	Cash receipts from customers		1,683.6	2,004.9
(1,755.6)	(1,502.1)	Cash paid to suppliers and employees		(1,683.3)	(1,990.2)
21.8	(12.3)	Cash generated from/(used in) operations	14	0.3	14.7
45.8	30.2	Interest income		30.3	45.8
(10.0)	(5.6)	Finance costs		(1.3)	(1.6)
57.6	**12.3**	**NET CASH FLOWS FROM OPERATING ACTIVITIES**		**29.3**	**58.9**
		INVESTING ACTIVITIES:			
(26.9)	(11.3)	Purchase of property, plant & equipment	16	(26.4)	(37.1)
0.9	0.1	Proceeds from sale of property, plant & equipment	16	1.0	1.7
-	-	Purchase of other intangible assets	17	(0.2)	(0.1)
(28.3)	6.1	Proceed/payment from non-current financial assets		6.1	1.7
(54.3)	**(5.1)**	**NET CASH FLOWS USED IN INVESTING ACTIVITIES**		**(19.5)**	**(33.8)**
		FINANCING ACTIVITIES			
22.6	(4.9)	Repayment/(receipt) of other non-current financial liabilities		(4.9)	(1.4)
22.6	**(4.9)**	**NET CASH FLOWS FROM/ (USED IN) FINANCING ACTIVITIES**		**(4.9)**	**(1.4)**
25.9	**2.3**	**TOTAL CASH MOVEMENT FOR THE YEAR**		**4.9**	**23.7**
317.4	343.3	Cash at the beginning of the year		336.2	312.5
343.3	**345.6**	**TOTAL CASH AT END OF THE YEAR**	21	**341.1**	**336.2**

ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 MARCH 2010

1. Mandate

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

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

Operating capital and fixed capital requirements of subsidiaries are financed from own income generated and cash allocated by the holding company, as well as additional funding received from the DOD.

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. The principal accounting policies adopted by the group, are set out below:

Basis of preparation

The principal accounting policies of the group and disclosures made in the annual financial statements conform to South African Statements of Generally Accepted Accounting Practice and are consistent with those applied in the previous year except as follows:

The financial statements have been prepared on a historical cost basis, except for some financial instruments that have been measured at fair value. The financial statements are presented in South African Rand and all values are rounded to the nearest million unless otherwise indicated.

NEW STANDARDS AND INTERPRETATIONS

Standards and interpretations effective and adopted in the current year

In the current year, the group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

IAS 1 (AC 101) (Revised) Presentation of Financial Statements

The main revisions to IAS 1 (AC 101):

- Require the presentation of non-owner changes in equity either in a single statement of comprehensive income or in an income statement and statement of comprehensive income.
- Require the presentation of a statement of financial position at the beginning of the earliest comparative period whenever a retrospective adjustment is made. This requirement includes related notes.
- Require the disclosure of income tax and reclassification adjustments relating to each component of other comprehensive income. The disclosures may be presented on the face of the statement of comprehensive income or in the notes.
- Allow dividend presentations to be made either in the statement of changes in equity or in the notes only.
- Have changed the titles to some of the financial statement components, where the 'balance sheet' becomes the 'statement of financial position' and the 'cash flow statement' becomes the 'statement of cash flows.' These new titles will be used in International Financial Reporting Standards, but are not mandatory for use in financial statements.

The effective date of the standard is for years beginning on or after 1 January 2009.

The group has adopted the standard for the first time in the 2010 financial statements.

The adoption of this standard has not had a material impact on the results of the group, but has resulted in more disclosure than would have previously been provided in the financial statements.

May 2008 Annual Improvements to IFRS's: Amendments to IFRS 7 (AC 144) Financial Instruments: Disclosures

The amendment relates to changes in the Implementation Guidance of the Standard. 'Total interest income' was removed as a component of finance costs from paragraph IG13. This was to remove inconsistency with the requirement of IAS 1 (AC 101) Presentation of Financial Statements which precludes the offsetting of income and expenses.

The effective date of the amendment is for years beginning on or after 1 January 2009.

The group has adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material.

May 2008 Annual Improvements to IFRS's: Amendments to IAS 1 (AC 101) Presentation of Financial Statements

The amendment is to clarify that financial instruments classified as held for trading in accordance with IAS 39 (AC 133) Financial Instruments: Recognition and Measurement are not always required to be presented as current assets/liabilities.

The effective date of the amendment is for years beginning on or after 1 January 2009.

The group has adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material, as it only relate to the disclosure of interest income.

May 2008 Annual Improvements to IFRS's: Amendments to IAS 8 (AC 103) Accounting Policies Changes in Accounting Estimates and Errors

The amendment clarified that Implementation Guidance related to any Standard is only mandatory when it is identified as an integral part of the Standard.

The effective date of the amendment is for years beginning on or after 1 January 2009.

The group has adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material.

May 2008 Annual Improvements to IFRS's: Amendments to IAS 16 (AC 123) Property, Plant and Equipment

The term 'net selling price' has been replaced with 'fair value less cost to sell' in the definition of recoverable amount.

The effective date of the amendment is for years beginning on or after 1 January 2009.

The group has adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material.

May 2008 Annual Improvements to IFRS's: Amendments to IAS 19 (AC 116) Employee Benefits

With regards to curtailments and negative past service costs clarification has been made that:

- When a plan amendment reduces benefits, the effect of the reduction for future service is a curtailment and the effect of any reduction for past service is a negative past service cost;
- Negative past service cost arises when a change in the benefits attributable to past service results in a reduction in the present value of the defined benefit obligation; and
- A curtailment may arise from a reduction in the extent to which future salary increases are linked to the benefits payable for past service.

The definition of 'return on plan assets' has also been amended to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the actuarial assumptions used to measure the defined benefit obligation.

The term "fall due" in the definition of "short term employee benefits" has been replaced with "due to be settled".

The effective date of the amendment is for years beginning on or after 1 January 2009.

The group has adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material.

Amendments to IFRS 7 (AC 144): Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments

The amendment requires additional disclosures about fair value measurement, including separating fair value measures into a hierarchy. The amendments also require liquidity risk disclosure to be separated between non-derivative financial liabilities and derivative financial liabilities.

The effective date of the amendment is for years beginning on or after 1 January 2009.

The group has adopted the amendment for the first time in the 2010 financial statements.

The impact of the amendment is not material.

Standards and interpretations not yet effective

The group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the group's accounting periods beginning on or after 1 April 2010 or later periods.

2009 Annual Improvements Project: Amendments to IFRS 5 (AC 142) Non-current Assets Held for Sale and Discontinued Operations

The amendment specifies that disclosures of other Standards do not apply to non-current assets (or disposal groups) held for sale or discontinued operations, unless specifically required by other Standards or for measurement disclosures of assets and liabilities in a disposal group which are outside the measurement requirements of IFRS 5 (AC 142) Non-current Assets Held for Sale and Discontinued Operations.

The effective date of the amendment is for years beginning on or after 1 January 2010.

The group expects to adopt the amendment for the first time in the 2011 financial statements.

It is unlikely that the amendment will have a material impact on the corporation's financial statements.

2009 Annual Improvements Project: Amendments to IAS 7 (AC 118) Statement of Cash Flows

The amendment provides that expenditure may only be classified as 'cash flows from investing activities' if it resulted in the recognition of an asset on the statement of financial position.

The effective date of the amendment is for years beginning on or after 1 January 2010.

The group expects to adopt the amendment for the first time in the 2011 financial statements.

The adoption of this amendment is not expected to impact on the results of the group, but may result in more disclosure than is currently provided in the financial statements.

2009 Annual Improvements Project: Amendments to IAS 18 (AC 111) Revenue

The amendment provides additional guidance in the determination of whether an entity is acting as an agent or principal in a revenue transaction.

The effective date of the amendment is for years beginning on or after 1 July 2009.

The group expects to adopt the amendment for the first time in the 2011 financial statements.

The impact of this amendment is currently being assessed.

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.

The results of subsidiaries are included for the duration in which the group exercises control over the subsidiary. All inter-company 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.

1.4 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:

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, expected rates of return on assets, 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.

Impairment of financial assets

In determining the impairment of financial assets management estimates the future cash flows, as well as the appropriate discount rate. These estimates are based on the best available information at the reporting date.

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.

Trade receivables, held to maturity investments and loans and receivables

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

Fair value estimation

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

Provisions

Provisions were raised and management determined an estimate based on the best available information. Additional disclosure of these estimates of provisions are included in note 27.

1.5 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.

Land and buildings

Buildings on freehold land

Land is stated at cost and is not depreciated. Buildings are stated at cost 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 twenty and fifty years.

Buildings on State property

Buildings are stated at cost less accumulated depreciation and accumulated impairment. Depreciation is calculated on a straight line basis over the useful life of the assets which is estimated as fifty years.

The buildings' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

Plant and equipment (including 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 if the recognition criteria is met. Depreciation is calculated to write off the cost of capitalised fixed assets on a straight line basis over their expected useful lives over periods that vary between three and ten years.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus/deficit for the year the asset is derecognised.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

1.6 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.

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 the surplus/deficit 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. Amortisation is calculated to write off the cost of capitalised intangible assets on a straight line basis over their expected useful lives over ten years.

Patents

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

1.7 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 estimated costs of completion and the estimated costs necessary to make the sale.

1.8 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.

Capital and building maintenance reserve

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

Computer upgrading reserve

The purpose of this reserve is for the upgrading and replacement of obsolete, outdated computer technology.

Marketing promotion reserve

The reserve was established to supplement the financing of exhibition costs in order to promote the local weapons industry which is part of Armscor's mandate, but which is not provided for via the transfer payment from the Department of Defence.

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.

1.9 FOREIGN CURRENCY CONVERSION

Transactions and balances

Transactions denominated in foreign currencies are converted at the rate of exchange ruling at the transaction date. Monetary items denominated in foreign currencies are converted at the rate of exchange ruling at the reporting date. Gains or losses arising on conversion are recognised in the surplus/deficit.

1.10 REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration receivable or received. The following specific recognition criteria also needs to be met before revenue is recognised:

Sale of goods and services

Revenue comprises net invoiced sales to customers excluding VAT and all discounts. Sales are recognised at the date of delivery of goods or services, when significant risks and rewards of ownership are transferred to the buyer.

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.

Dividends

Dividends are recognised when the right to receive payment is established.

Rental income

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

Government grant

Armscor's operating funds are obtained via the defence budget and recognised as a grant 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.

1.11 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. An amount of R25,0 million (2009: R27 million) is held in an internal insurance fund to cover these risks. This amount is disclosed as part of non-distributable reserves in the statement of financial position. No major losses were experienced during the year under review. Claims of a general nature were adequately covered.

1.12 FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised on the group's statement of financial position when it becomes a party to the contractual provisions of the instrument.

Measurement

Financial instruments are initially measured at fair value plus in the case of financial instruments or at fair value through profit or loss transactions costs that are directly attributable to acquisition or issue, which includes transaction costs that are directly attributable to acquisition or issue of the financial asset. Subsequent to initial recognition these instruments are measured as set out below.

Investments

Fixed deposits with a maturity date greater than three months are classified as held to maturity investments.

Loans and other receivables

Loans and other receivables are non-derivative assets that arise from transactions with providers. Subsequent to initial recognition, they are measured at amortised cost less impairment provision. Provision for impairment of other receivables 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. Bad debts are written off when identified. Personnel loans are interest bearing over periods that vary between one and twelve months in terms of conditions of employment.

Cash and cash equivalents

Cash and cash equivalents which are regarded as loans and other receivables are measured at amortised cost, based on the relevant exchange rates at reporting date. For the purpose of the cash flow statement, cash and cash equivalents comprise of cash on hand, deposits held on call and investment instruments, all of which are readily convertible (within 3 months) to cash, available for use by the group unless otherwise stated and are subject to an insignificant risk of change in value.

Financial liabilities

After initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the surplus/deficit for the year when the liabilities are derecognised as well as through the amortisation process.

Financial guarantees

Financial guarantees issued are carried at fair value. The fair value would be determined as the present value of future cash flows to settle the liabilities.

Derecognition of financial assets and liabilities

Financial assets

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.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Gains and losses

The difference in the respective carrying amounts on the derecognition of financial assets and liabilities is recognised in the statement of comprehensive income.

Financial guarantees

Financial guarantees issued are derecognised when the obligations under the liability are discharged.

Impairment of financial assets

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 is 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 surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Loans to shareholders, directors, managers and employees

These financial assets are classified as loans and receivables.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.
Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the group has the positive intention and ability to hold to maturity are classified as held to maturity.

1.13 PROVISIONS

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 30.

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 surplus/deficit, net of any reimbursement.

Performance remuneration

The payment of performance remuneration is subject to the Corporations' achievement of set performance criteria. The Corporation use 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 Armscor department's performance as measured and expressed by their calculated performance score.

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.

Provision for bonus

The provision for bonus which form part of the guaranteed annual package is for the period December to March of the applicable financial year and is calculated on the total annual remuneration package.

1.14 DISCONTINUED OPERATIONS

A discontinued operation is a component of the group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of financial position is restated as if the operation had been discontinued from the start of the comparative period.

1.15 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 dependant 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.

1.16 RESEARCH AND DEVELOPMENT COSTS

Research cost are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

1.17 IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

The carrying amounts of assets mentioned in the accounting policy notes are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated as the higher of fair value less cost to sell and value in use.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. That reduction is an impairment loss, which is recognised immediatelly in surplus or deficit.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

1.18 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure means expenditure which was made in vain, as well as penalties levied on late deliveries and which would have been avoided had reasonable care been exercised.

1.19 BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings.

The capitalisation of borrowing costs commences when:

- Expenditures for the asset have occurred;
- Borrowing costs have been incurred, and
- Activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the group's share in the net fair value of the acquisition identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the surplus/deficit.

1.21 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.

1.22 EMPLOYEE BENEFITS

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.

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.

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.
Where the group is in the net asset position, the defined benefit surplus is measured at the lower of:

- The present value of defined obligation, plus actuarial gains, less past service cost, less the fair value of plan assets at the reporting date of the plan assets; and
- The total of cumulative unrecognised actuarial loss, and past service cost and the present value of any economic benefits in the form of refunds from the plan or a reduction in future contributions of the plan.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

CORPORATION 2009 Rm	CORPORATION 2010 Rm			GROUP 2010 Rm	GROUP 2009 Rm
		2.	**REVENUE**		
1,299.5	827.1		Armscor Corporation	827.1	1,299.5
13.4	8.5		Armscor Dockyard	8.5	13.4
35.5	52.7		Defence Matériel Disposal	52.7	35.5
-	-		Subsidiaries	206.1	184.6
1,348.4	**888.3**			**1,094.4**	**1,533.0**
		3.	**COST OF SALES**		
1,275.5	809.3		Armscor Corporation	809.3	1,275.5
3.7	4.6		Armscor Dockyard	4.6	3.7
29.3	42.2		Defence Matériel Disposal	42.2	29.3
-	-		Subsidiaries	76.7	80.3
1,308.5	**856.1**			**932.8**	**1,388.8**
		4.	**GROSS SURPLUS**		
24.0	17.8		Armscor Corporation	17.8	24.0
9.7	3.9		Armscor Dockyard	3.9	9.7
6.2	10.5		Defence Matériel Disposal	10.5	6.2
-	-		Subsidiaries	129.4	104.3
39.9	**32.2**			**161.6**	**144.2**
		5.	**OTHER OPERATING REVENUE**		
30.6	33.5		Armscor Corporation rental income	31.6	28.7
21.0	16.0		Armscor Corporation other income	9.9	15.2
1.2	0.1		Dockyard other income	0.1	1.2
1.1	1.8		Defence Matériel Disposal other income	1.8	1.1
-	-		Subsidiaries other income	4.6	1.8
53.9	**51.4**			**48.0**	**48.0**
		6.	**GOVERNMENT GRANT**		
393.1	434.9		Transfer payment - Armscor Corporation (Including facilities)	434.9	393.1
85.9	94.0		Transfer payment - Armscor Dockyard	94.0	85.9
479.0	**528.9**			**528.9**	**479.0**
		7.	**OPERATING EXPENSES**		
450.2	520.6		Armscor Corporation	481.7	416.5
100.2	119.4		Armscor Dockyard	119.4	100.2
10.5	10.2		Defence Matériel Disposal	10.2	10.5
-	-		Subsidiaries	172.0	147.5
560.9	**650.2**			**783.3**	**674.7**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

CORPORATION				GROUP	
2009 Rm	2010 Rm			2010 Rm	2009 Rm
		8.	**SURPLUS/(DEFICIT) FROM OPERATIONS**		
18.5	(18.4)		Armscor Corporation	(26.4)	10.8
(3.4)	(21.4)		Armscor Dockyard	(21.4)	(3.4)
(3.2)	2.1		Defence Matérial Disposal	2.1	(3.2)
-	-		Subsidiaries	0.9	(7.7)
11.9	**(37.7)**			**(44.8)**	**(3.5)**
			Is arrived at after taking into account:		
(2.9)	(4.3)		Reversal of impairment on property, plant & equipment	(6.1)	(4.5)
12.9	18.9		Impairment on trade and other receivables	18.9	13.0
-	-		Reversal of impairment on trade and other receivables	-	(0.1)
1.5	2.2		Auditors remuneration	2.9	2.1
15.4	16.1		Depreciation on property, plant & equipment	30.2	29.3
352.9	392.8		Salaries, wages & other benefits	525.9	486.0
31.5	35.2		Post retirement benefits	46.2	40.7
(7.3)	7.0		Defined medical benefit expense	9.4	(7.3)
5.3	2.2		Rent paid for machinery and equipment	4.4	5.3
33.7	38.9		Subsidiary support (transfer payment to facilities)	-	-
(1.4)	0.1		Exchange rate differences	0.4	(1.2)
(0.4)	0.1		Loss/(profit) from disposal of property, plant & equipment	(0.5)	(0.7)
		9.	**INVESTMENT REVENUE**		
			Interest Revenue		
45.8	30.2		Finance income	30.3	45.8
		10.	**FAIR VALUE ADJUSTMENTS**		
11.1	-		Profit on fair value adjustment of financial liability	-	11.1
(13.9)	-		Loss on fair value adjustment of financial asset	-	(13.9)
(2.8)	**-**			**-**	**(2.8)**
		11.	**FINANCE COSTS**		
1.6	1.3		On financial liability	1.3	1.6
8.4	4.3		To subsidiaries	-	-
10.0	**5.6**			**1.3**	**1.6**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

CORPORATION			GROUP	
2009 Rm	2010 Rm		2010 Rm	2009 Rm
		12. DEFINED MEDICAL BENEFIT EXPENSE - POST RETIREMENT		
		Included in operating expenses:		
7.5	9.4	Current service cost	12.9	11.1
19.8	23.8	Interest cost	27.7	24.0
(32.8)	(27.4)	Expected return on plan assets	(32.3)	(39.9)
(1.1)	1.9	Net actuarial gains/(losses) recognised	2.1	(1.5)
(0.7)	(0.7)	Past service cost	(1.0)	(1.0)
(7.3)	**7.0**		**9.4**	**(7.3)**
		Refer to note 30 for further detail regarding retirement benefits		
		13. TOTAL COMPREHENSIVE SURPLUS/(DEFICIT)		
		After elimination of inter-group transactions		
50.5	4.1	Armscor Corporation	0.4	51.2
-	(19.6)	Armscor Dockyard	(19.6)	-
(5.6)	2.4	Defence Matériel Disposal	2.4	(5.6)
-	-	Subsidiaries	1.0	(7.7)
44.9	**(13.1)**		**(15.8)**	**37.9**
		The total comprehensive deficit of subsidiaries before the elimination of inter-group transactions is R2,7 million. (R2009: R7 million)		
		14. CASH GENERATED FROM/(USED IN) OPERATIONS		
44.9	(13.1)	(Deficit)/Surplus before taxation	(15.8)	37.9
		Adjustments for:		
15.4	16.1	Depreciation and amortisation	30.2	29.3
13.9	-	Unrealised fair value loss on financial assets	-	13.9
(11.1)	-	Unrealised fair value gain on financial liability	-	(11.1)
10.0	5.6	Finance costs	1.3	1.6
(45.8)	(30.2)	Finance income	(30.3)	(45.8)
(2.9)	(4.3)	Impairment reversals	(6.1)	(4.5)
(5.9)	(9.3)	Movements in retirement benefit assets and liabilities	(13.2)	(11.0)
(0.4)	0.1	Loss/(profit) on disposal of property, plant & equipment	(0.5)	(0.7)
(12.8)	4.5	Movements in provisions	7.8	(19.9)
		Changes in working capital:		
(115.0)	21.2	Trade and other receivables	12.5	(66.3)
(0.4)	(0.3)	Inventories	3.3	0.7
111.1	10.5	Trade and other payables	11.1	90.6
56.6	-	Decrease in investment in subsidiaries	-	-
(35.8)	(13.1)	Repayment of loans from subsidiaries	-	-
21.8	**(12.3)**		**0.3**	**14.7**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

CORPORATION			GROUP	
2009 Rm	2010 Rm		2010 Rm	2009 Rm
		15. TOTAL VALUE OF ACQUISITION ACTIVITIES		
		Government grants for operating expenditure are obtained to undertake acquisition activities. In accordance with Armscor's mandate, acquisition was undertaken on behalf of the following organisations:		
9,114.7	5,505.0	Special Defence Account	5,505.0	9,114.7
1,125.3	1,308.2	General Defence Account	1,308.2	1,125.3
168.9	108.0	SA Police Service	108.0	168.9
77.3	106.9	Other	106.9	77.3
10,486.2	**7,028.1**		**7,028.1**	**10,486.2**

16. PROPERTY, PLANT AND EQUIPMENT	COST/VALUATION	ACCUMULATED DEPRECIATION	CARRYING VALUE
GROUP	**2010 RM**	**RM**	**RM**
Land	12.7	-	12.7
Buildings	200.6	(63.0)	137.6
Plant, machinery and equipment	43.1	(28.6)	14.5
Office equipment, furniture and computers	99.1	(57.0)	42.1
Vehicles and vessels	23.4	(13.9)	9.5
	378.9	**(162.5)**	**216.4**
	2009		
Land	12.7	-	12.7
Buildings	195.8	(58.0)	137.8
Plant, machinery and equipment	40.0	(26.5)	13.5
Office equipment, furniture and computers	89.7	(47.0)	42.7
Vehicles and vessels	20.1	(12.2)	7.9
	358.3	**(143.7)**	**214.6**

ARMSCOR
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

16. PROPERTY, PLANT AND EQUIPMENT (continued)

CORPORATION	COST/VALUATION 2010 RM	ACCUMULATED DEPRECIATION RM	CARRYING VALUE RM
Plant, machinery and equipment	5.9	(5.9)	-
Office equipment, furniture and computers	78.2	(42.3)	35.9
Vehicles and vessels	6.8	(5.2)	1.6
	90.9	**(53.4)**	**37.5**
	2009		
Plant, machinery and equipment	5.9	(5.9)	-
Office equipment, furniture and computers	68.5	(32.6)	35.9
Vehicles and vessels	6.8	(4.5)	2.3
	81.2	**(43.0)**	**38.2**

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT

GROUP	OPENING BALANCE 2010 RM	ADDITIONS RM	DISPOSALS RM	DEPRECIATION RM	IMPAIRMENT REVERSAL RM	TOTAL RM
Land	12.7	-	-	-	-	12.7
Buildings	137.8	5.1	(0.2)	(5.0)	-	137.7
Plant, machinery and equipment	13.5	4.3	-	(3.8)	0.5	14.5
Office equipment, furniture and computers	42.7	13.2	(0.3)	(18.9)	5.3	42.0
Vehicles & Vessels	7.9	3.8	-	(2.5)	0.3	9.5
	214.6	**26.4**	**(0.5)**	**(30.2)**	**6.1**	**216.4**
	2009					
Land	12.7	-	-	-	-	12.7
Buildings	138.5	4.4	(0.2)	(4.9)	-	137.8
Plant, machinery and equipment	11.2	5.2	(0.1)	(3.5)	0.7	13.5
Office equipment, furniture and computers	33.2	24.9	(0.5)	(18.5)	3.6	42.7
Vehicles & Vessels	7.8	2.6	(0.3)	(2.4)	0.2	7.9
	203.4	**37.1**	**(1.1)**	**(29.3)**	**4.5**	**214.6**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

16. RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT (continued)

CORPORATION	OPENING BALANCE	ADDITIONS	DISPOSALS	DEPRECIATION	IMPAIRMENT REVERSAL	TOTAL
	2010 RM	RM	RM	RM	RM	RM
Office equipment, furniture and computers	35.9	11.3	(0.2)	(15.1)	4.0	35.9
Vehicles & Vessels	2.3	-	-	(1.0)	0.3	1.6
	38.2	**11.3**	**(0.2)**	**(16.1)**	**4.3**	**37.5**
	2009					
Office equipment, furniture and computers	23.6	23.9	(0.2)	(14.3)	2.9	35.9
Vehicles & Vessels	0.7	3.0	(0.3)	(1.1)	-	2.3
	24.3	**26.9**	**(0.5)**	**(15.4)**	**2.9**	**38.2**

CORPORATION			GROUP	
2009 Rm	2010 Rm		2010 Rm	2009 Rm
		Net depreciation		
15.4	16.1	Gross depreciation	30.2	29.3
(2.9)	(4.3)	Less: Impairment reversals	(6.1)	(4.5)
12.5	**11.8**		**24.1**	**24.8**

In line with the requirements of IAS 16(AC 123) 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 R6,1 million (2009: R4,5 million).

Other matters

Included in the Corporation's value of plant, machinery and equipment are assets at contractors with a cost of R5,9 million (2009: R5,9 million) that are fully depreciated.

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

17. INTANGIBLE ASSETS

GROUP	COST/VALUATION	ACCUMULATED DEPRECIATION	CARRYING VALUE
	2010 RM	RM	RM
Patents, trademarks and other rights	0.6	(0.1)	0.5
	2009		
Patents, trademarks and other rights	0.4	(0.1)	0.3

RECONCILIATION OF INTANGIBLE ASSETS

GROUP	OPENING BALANCE	ADDITIONS	TOTAL
	2010 RM	RM	RM
Patents, trademarks and other rights	0.3	0.2	0.5
	2009		
Patents, trademarks and other rights	0.2	0.1	0.3

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

CORPORATION			GROUP	
2009 Rm	2010 Rm		2010 Rm	2009 Rm
		18. OTHER NON CURRENT FINANCIAL ASSETS		
		Loans and receivables		
14.4	8.3	Loans and receivables	8.3	14.4
		The loans receivables are non-interest bearing. The repayment terms are as follows:		
		11/07/2011 R8,3 million		
		Refer to note 31 for fair value		
		19. INVENTORIES		
-	-	Raw materials, components	0.3	0.4
-	-	Work in progress	0.3	3.9
1.1	1.2	Consumables	1.6	1.4
-	0.2	Finished goods	0.6	0.4
1.1	**1.4**		**2.8**	**6.1**
		The amount of inventories written off during the year is R nil (2009: R nil)		

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

CORPORATION			GROUP	
2009 Rm	2010 Rm		2010 Rm	2009 Rm
		20. TRADE AND OTHER RECEIVABLES		
40.2	61.5	Trade receivables	79.1	58.4
34.7	16.5	Trade receivables - Related parties	30.0	37.4
3.4	6.1	Short term portion of long term receivables	6.1	3.4
78.3	84.1	Total trade receivables	115.2	99.2
44.7	28.8	Other receivables	32.1	49.5
14.0	3.7	Other receivables - Related parties	3.7	14.1
0.3	0.3	Personnel loans	0.4	0.3
2.5	1.7	Interest receivable on investments	1.7	2.5
139.8	**118.6**		**153.1**	**165.6**
		As at 31 March the aging analysis of trade receivables is as follows:		
57.1	76.5	Neither past due nor impaired	95.0	69.7
6.4	4.8	30 - 60 days	11.8	10.2
3.1	0.2	60 - 90 days	4.0	5.9
		Past due but not impaired:		
5.3	2.0	90 - 120 days	3.3	5.6
6.4	0.6	120 days and older	1.1	7.8
78.3	**84.1**		**115.2**	**99.2**
		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.		
		Movement in the allowance for doubtful debts:		
24.1	38.1	Balance at the beginning of the year	38.4	53.3
28.8	-	Transfer between Armscor and Armscor Business	-	-
12.9	18.9	Impairment losses recognised on receivables	18.9	13.0
(27.7)	-	Amounts written off as uncollectable	-	(27.8)
-	-	Impairment losses reversed	-	(0.1)
-	(1.3)	Amounts recovered during the year	(1.3)	-
38.1	**55.7**	**Balance at the end of the year**	**56.0**	**38.4**

Terms and conditions of the above financial assets:

Trade receivables are non-interest bearing and are generally on thirty to ninety days terms.
Other receivables are non-interest bearing and are generally on thirty to ninety days terms.

Personal loans are interest bearing over periods that vary between one to twelve months in terms of terms and conditions of employment. 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 note 35.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

CORPORATION			GROUP	
2009 Rm	2010 Rm		2010 Rm	2009 Rm
		21. CASH AND SHORT TERM DEPOSITS		
		Cash and cash equivalents consist of:		
19.3	35.6	Cash at banks and in hand	31.1	12.2
324.0	310.0	Short-term deposits	310.0	324.0
343.3	**345.6**		**341.1**	**336.2**

Included in cash and short term deposits is an amount of R25,0 million (2009: R27,0 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 three months depending on the immediate cash requirements of the group, and earn interest at the respective short-term deposit rates.

CORPORATION 2009 Rm	CORPORATION 2010 Rm		GROUP 2010 Rm	GROUP 2009 Rm
		22. ORDINARY SHARE CAPITAL		
		Authorised		
1,000.0	1,000.0	▪ 1 000 000 000 ordinary shares of R1 each	1,000.0	1,000.0
		Issued		
75.0	75.0	▪ Ordinary	75.0	75.0

Share Capital is under the control of the executive authority.

CORPORATION 2009 Rm	CORPORATION 2010 Rm		GROUP 2010 Rm	GROUP 2009 Rm
		23. OTHER NON CURRENT FINANCIAL LIABILITIES		
		Held at amortised cost		
11.5	6.6	Long term trade payables	6.6	11.5

The long term payables are non-interest bearing. The payment terms are as follows:

11/07/2011 R6,6 million

Refer to note 31 for fair value

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

CORPORATION 2009 Rm	CORPORATION 2010 Rm		GROUP 2010 Rm	GROUP 2009 Rm
		24. INVESTMENT IN AND LOANS TO/ (FROM) SUBSIDIARIES		
180.0	180.0	Investment in subsidiaries	-	-
(69.3)	(56.2)	Loan from subsidiary: Armscor Business (Pty) Ltd	-	-
110.7	**123.8**		**-**	**-**

The short term loan represents the current account which is utilised to manage the overall cash flow of the group. This loan is unsecured, interest bearing and repayable on demand. The rate of interest levied is based on the rate of return earned by Armscor on surplus funds.

The carryng amount of the short term loan approximates its fair value.

Mutually agreed interest-bearing, unsecured loans without fixed conditions of repayment.

Included in the loans to subsidiaries are the loans of Armscors' property companies of which companies all income and expenses (if any) are reflected in the financial statements of the Group.

The carrying amount of the investments approximates its fair value.

SOUTH AFRICAN SUBSIDIARIES (At 100% Holdings)	ISSUED SHARE CAPITAL	SHARES AT COST 2010 R	SHARES AT COST 2009 R	LOANS DUE BY SUBSIDIARIES 2010 Rm	LOANS DUE BY SUBSIDIARIES 2009 Rm
ARMSCOR BUSINESS (PTY) LTD	4,000	4,000	4,000	40.9	40.9
ERASMUSRAND PROPERTIES (PTY) LTD	1	1	1	136.0	136.0
INSTITUTES FOR MARITIME TECHNOLOGY (PTY) LTD*	4	4	4	-	-
OOSPARK (PTY) LTD	1	1	1	1.1	1.1
SPORTRAND (PTY) LTD	1	1	1	2.0	2.0
	4,007	**4,007**	**4,007**	**180.0**	**180.0**

*Dormant Subsidiary

The name of Armscor Business (Pty) Ltd will be changed to Armscor Defence Institutes (Pty) Ltd with effect from 1 April 2010.

The attributable interest of the Corporation in the net loss of its subsidiaries amounted to R2,7 million (2009 : loss R7,0 million)

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above.
The group does not hold any collateral as security.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

CORPORATION			GROUP	
2009 Rm	2010 Rm		2010 Rm	2009 Rm
		25. TRADE AND OTHER PAYABLES		
38.8	35.3	Trade payables	43.2	42.6
32.5	49.4	Trade payables - related parties	58.6	38.6
54.6	19.1	Other payables	31.9	74.0
0.3	31.1	Other payables - related parties	31.1	0.3
2.7	4.9	Short term portion of long term liabilities	4.9	2.7
0.4	-	Short term portion of long term payables - other	-	0.4
129.3	**139.8**		**169.7**	**158.6**
73.3	89.6	Trade payables	105.1	77.7
55.3	50.2	Other payables	63.0	74.7
128.6	139.8	Current	168.1	152.4
-	-	> 30 Days	1.5	2.9
		Trade payables		
0.7	-	> 60 Days	0.1	3.3
		Trade payables		
129.3	**139.8**		**169.7**	**158.6**

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 note 35.

The carrying amount of the accounts payable approximates its fair value.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

26. PROVISIONS	OPENING BALANCE	ADDITIONS	UTILISED DURING THE YEAR	TOTAL
RECONCILIATION OF PROVISIONS				
2010				
GROUP	**Rm**	**Rm**	**Rm**	**Rm**
Provision for bonuses (13th cheque)	9.7	15.9	(14.9)	10.7
Provision for leave	41.7	18.3	(14.6)	45.4
Provision for performance remuneration	28.5	31.3	(28.2)	31.6
	79.9	**65.5**	**(57.7)**	**87.7**
2009	**Rm**	**Rm**	**Rm**	**Rm**
Provision for bonusses (13th cheque)	9.6	12.6	(12.5)	9.7
Provision for leave	43.6	33.8	(35.7)	41.7
Provision for performance remuneration	46.6	26.7	(44.8)	28.5
	99.8	**73.1**	**(93.0)**	**79.9**
2010				
CORPORATION	**Rm**	**Rm**	**Rm**	**Rm**
Provision for bonusses (13th cheque)	7.6	8.3	(7.6)	8.3
Provision for leave	31.9	14.4	(12.0)	34.3
Provision for performance remuneration	21.4	22.4	(21.0)	22.8
	60.9	**45.1**	**(40.6)**	**65.4**
2009	**Rm**	**Rm**	**Rm**	**Rm**
Provision for bonusses (13th cheque)	7.5	7.6	(7.5)	7.6
Provision for leave	33.9	31.9	(33.9)	31.9
Provision for performance remuneration	32.3	21.4	(32.3)	21.4
	73.7	**60.9**	**(73.7)**	**60.9**

Performance remuneration for 2009/2010 will be paid upon completion of the performance evaluation.

Performance remuneration paid during the 2008/2009 financial year includes delayed payment of performance remuneration for the 2007/2008 financial year.

Bonusses (13th cheque) will be paid at the end of November, except for Armscor Dockyard personnel, who receive their bonus in month of birth.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

CORPORATION			GROUP	
2009 Rm	2010 Rm		2010 Rm	2009 Rm
		27. CONTRACTUAL LIABILITIES		
377.2	344.6	Projected outstanding commitments in respect of orders placed for expected deliveries	344.6	377.2
		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 R266,2 million (2009: R327,6 million)		
		28. CAPITAL COMMITMENTS		
		Authorised capital expenditure		
		Capital expenditure approved but not yet contracted		
-	1.6	▪ Property, plant and equipment	15.9	15.3

29. CONTINGENT LIABILITIES

Guarantees

Bank guarantees have been issued for Armscor Business in favour of a local contractor amounting to R1,3 million (2009: R1,1 million) in respect of marketing transactions and for Armscor to a foreign contractor amounting to USD 2,3 million (2009: USD 2,3 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 R8,9 million (2009: R11,3 million) with regard to local guarantees.

Other

At 31 March 2010 the group had a contingent liability in respect of rehabilitation of the test range at Alkantpan (Pty) Ltd.
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, 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.

Annual 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 June 2009. No new issues or risks were reported at the meeting held and it was reported that the current measures in place are sufficient to manage the range in compliance with the Act.

Operating lease commitments – group as lessee

The group has entered into operational leases on certain motor vehicles and items of machinery and equipment. These leases have an average life of between 1 and 10 years. There are no restrictions placed upon the lessee by entering into these leases.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

Future minimum rentals payable under non-cancellable operating leases as at 31 March 2010 are as follows:

CORPORATION			GROUP	
2009 Rm	2010 Rm		2010 Rm	2009 Rm
0.1	0.3	Within one year	1.3	1.2
0.1	0.4	After one year but not more than five years	3.8	3.9
-	-	After five years	4.5	6.1
0.2	**0.7**		**9.6**	**11.2**

30. RETIREMENT BENEFITS

Armscor Defined Contribution Pension Fund and Provident Fund

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 8 members is R nil (2009: R nil) as the pensioners account in the pension fund is sufficiently funded.

CORPORATION			GROUP	
2009 Rm	2010 Rm		2010 Rm	2009 Rm
25.2	28.7	The amount of contributions to the above scheme	39.7	34.4

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. A total of 358 (2008: 393) employees contributed to the fund.

CORPORATION			GROUP	
2009 Rm	2010 Rm		2010 Rm	2009 Rm
		The amount of contributions to the above scheme		
6.3	6.5	Post retirment benefits - Armscor Dockyard	6.5	6.3

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

Post-retirement medical benefits (Excluding Armscor Dockyard Personnel transferred from the SAN)

The group also provides post-retirement health care benefits to its retirees. The entitlement to postretirement 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 closing plan assets were divided between the two units in the same proportion as the opening plan assets.
The IAS19 (AC116) valuation of the group's post-employment benefits was carried out at 31 March 2010. Based on the latest valuation performed at 31 March 2010 the present value of the obligation is R317,5 million (2009: R298,0 million) and the fair value of plan assets is R434,8 million (2009: R316,3 million).

GROUP	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm
Present value of funded obligations	317.5	298.0	262.0	239.7	199.4
Fair value of plan assets	(434.8)	(316.3)	(384.6)	(340.0)	(263.2)
Present value of plan assets in excess of obligations	(117.3)	(18.3)	(122.6)	(100.3)	(63.8)
Unrecognised actuarial gains/(losses)	19.6	(65.7)	63.3	60.8	43.7
Unrecognised past service gains	3.0	4.0	5.0	6.0	7.0
Net asset in statement of financial position	**(94.7)**	**(80.0)**	**(54.3)**	**(33.5)**	**(13.1)**

CORPORATION	Rm	Rm	Rm	Rm	Rm
Present value of funded obligations	269.0	254.1	216.2	194.3	162.4
Fair value of plan assets	(368.4)	(269.7)	(317.4)	(267.9)	(209.5)
Present value of plan assets in excess of obligations	(99.4)	(15.6)	(101.2)	(73.6)	(47.1)
Unrecognised actuarial gains/(losses)	17.0	(56.7)	48.8	47.3	34.8
Unrecognised past service gains	2.3	3.0	3.7	4.4	5.1
Net asset in statement of financial position	**(80.1)**	**(69.3)**	**(48.7)**	**(21.9)**	**(7.2)**

Reconciliation of the present value of the funded obligations (group)

	2010 Rm	2009 Rm
Opening balance	298.0	262.0
Current service cost (includes interest to year end)	12.4	11.1
Interest cost	26.4	24.0
Expected employer benefit payments	(8.4)	(7.0)
Expected closing balance	328.4	290.1
Actuarial (gain)/loss	(10.9)	7.9
Actual closing balance	**317.5**	**298.0**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

CORPORATION			GROUP	
2009 Rm	2010 Rm		2010 Rm	2009 Rm
		Reconciliation of the net asset in the statement of financial position and amounts recognised in the surplus/deficit		
(48.7)	(69.3)	Opening balance	(80.0)	(54.3)
(7.3)	5.2	Expense recognised in employee remuneration costs	7.6	(7.3)
(6.8)	(8.3)	Employer benefit payments	(8.6)	(7.1)
(12.6)	(15.1)	Employer prefunding contributions	(21.1)	(17.4)
6.1	7.4	Payments from plan assets	7.4	6.1
(69.3)	**(80.1)**		**(94.7)**	**(80.0)**
		Net benefit expense (recognised in employee remuneration costs)		
7.5	8.9	Current service cost	12.4	11.1
19.8	22.5	Interest cost	26.4	24.0
(32.8)	(27.4)	Expected return on plan assets	(32.3)	(39.9)
(1.1)	1.9	Actuarial (gain)/loss recognised	2.1	(1.5)
(0.7)	(0.7)	Past service cost recognised	(1.0)	(1.0)
(7.3)	**5.2**		**7.6**	**(7.3)**
		Reconciliation of change in plan assets		
317.4	269.7	Fair value of assets at beginning of year	316.3	384.6
(41.4)	110.0	Actual return on assets	127.1	(64.1)
12.6	15.2	Contributions	21.2	17.4
(6.3)	(7.4)	Benefits paid	(7.4)	(6.3)
(12.6)	(19.1)	Other expenses	(22.4)	(15.3)
269.7	**368.4**	**Fair value of assets at end of year**	**434.8**	**316.3**

The main actuarial assumptions are:

	2010	2009
Discount rate	9,00%	9,00%
Health care cost inflation	7,25%	7,75%
Average retirement age	60	60
Expected return on plan assets	10,00%	10,00%

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

A one percentage point change in the assumed rate of increase in healthcare costs would have the following effects for the group:

	Health Care Cost Inflation		
	Central Assumption 7.25%	-1%	+1%
Accrued Liability 31 March 2010 (Rm)	317.4	272.0	374.8
% Change	-	-14.3%	+18,1%
Current Service Cost + Interest Cost 2010/11 (Rm)	40.5	33.9	49.3
% Change	-	-16.5%	+21,4%
Sensitivity Results from Previous Valuation	7.75%	-1%	+1%
Current Service Cost + Interest Cost 2009/10 (Rm)	38.8	32.2	47.4
% Change	-	-17.1%	+22,2%

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 (AC116) valuation of the Dockyard's post-employment benefits was carried out at 31 March 2010. This actuarial valuation of the employer's liability as at 31 March 2010 arises as a result of post-employment health care benefits enjoyed by former SA Naval Dockyard employees. Based on the valuation performed at 31 March 2010 the accrued liability in excess of the plan assets is R16,2 million.

CORPORATION			GROUP	
2009 Rm	2010 Rm		2010 Rm	2009 Rm
		The accrued liability in excess of plan assets as at 31 March 2010 is summarised below:		
14.7	16.2	Accrued liability	16.2	14.7
14.7	16.2	Accrued liability in excess of plan assets	16.2	14.7
(11.4)	(12.0)	Less: Cash received	(12.0)	(11.4)
3.3	**4.2**	**Net liability**	**4.2**	**3.3**
		A projection of results of the valuation as at 31 March 2010 to 31 March 2011 is set out below:		
14.7	16.2	Accrued liability as at 31 March 2010	16.2	14.7
1.3	1.4	Interest cost	1.4	1.3
0.5	0.5	Service cost (including interest to year end)	0.5	0.5
(0.3)	(0.5)	Expected employer benefit payments	(0.5)	(0.3)
16.2	**17.6**	**Projected accrued liability as at 31 March 2011**	**17.6**	**16.2**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

CORPORATION 2009 Rm	CORPORATION 2010 Rm		GROUP 2010 Rm	GROUP 2009 Rm
		Reconciliation of present value of the unfunded obligation		
-	14.7	Opening balance	14.7	-
-	0.5	Current service cost	0.5	-
-	1.3	Interest cost	1.3	-
-	(0.3)	Expected employer benefit payments	(0.3)	-
14.7	-	Take-on of liability	-	14.7
14.7	**16.2**	**Closing balance**	**16.2**	**14.7**
		Reconciliation of the present value of the unfunded obligation with the liability recognised in the Statement of financial position		
15.0	16.3	Present value of unfunded obligation	16.3	15.0
(0.3)	(0.1)	Unrecognised actuarial gains/(losses)	(0.1)	(0.3)
14.7	**16.2**		**16.2**	**14.7**
		Net benefit expense (recognised in employee remuneration)		
15.0	16.3	Current service cost	16.3	15.0
(0.3)	(0.1)	Interest cost	(0.1)	(0.3)
14.7	**16.2**		**16.2**	**14.7**

The main actuarial assumptions are:

	2010	**2009**
Discount rate	9,00%	9,00%
Health care cost inflation	7,25%	7,75%
CPI inflation	5,25%	5,75%
Average retirement age	65	65
Membership discontinued at Retirement or Death-in-Service	0%	0%

A one percentage point change in the assumed rate of increase in healthcare costs would have the following effects for the group:

	Health Care Cost Inflation		
	Central Assumption 7.25%	-1%	+1%
Accrued Liability 31 March 2010 (Rm)	16.3	16.3	16.3
% Change	-	-0.09%	+0,06%
Current Service Cost + Interest Cost 2010/11 (Rm)	1.9	1.9	1.9
% Change	-	-0.05%	+0,10%

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The group's financial instruments consist mainly of cash and cash equivalents, accounts receivable, certain 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 rate generating translation and transaction gain and losses
• Interest rates
• Credit risk
• Liquidity risk

Foreign Currency Management

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The group's exposure to the risk changes in foreign exchange rates relates primarily to the group's operating activities.

The group's exposure to foreign currency changes is not material.

The group does not hedge for foreign exchange fluctuations.

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 it's operations as well as to fund working capital and capital expenditure requirements. This cash is managed to ensure surplus funds are invested in a manner to achieve maximum returns while minimising risk.

Credit Risk Management

The group only deposits cash surpluses with major banks of high quality credit standing.
Trade account 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.
The maximum credit exposure is the carrying amount of financial assets as disclosed in the balance sheet.

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 corporation has no overdraft facility other than limited credit card facilities. No additional banking facilities or reserve borrowings are considered necessary.

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 ratio's 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 2010. 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

CORPORATION			GROUP	
2009 Rm	2010 Rm		2010 Rm	2009 Rm
(129.3)	(139.8)	Trade and other payables	(169.7)	(158.6)
343.3	345.6	Cash and cash equivalents	341.1	336.2

Fair Values (group)

	CARRYING AMOUNT		FAIR VALUE	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm
Financial assets				
Other non current financial assets				
- Trade receivables	8.3	14.4	8.3	14.4
Trade and other receivables	153.1	165.6	153.1	165.6
Cash allocated to insurance reserve	25.0	27.0	25.0	27.0
Cash and cash equivalents	319.1	309.2	319.1	309.2
Financial liability				
Current liabilities	(257.4)	(238.5)	(257.4)	(238.5)
Other non current financial liabilities				
- Related party payables	(6.6)	(11.5)	(6.6)	(11.5)

The carrying amounts for cash, cash equivalents, trade and other receivables and current liabilities approximate fair value due to the short-term nature of these instruments.

Related party payables and trade receivables measured at amortised cost using the effective interest method. The effective interest rate is 10.6% (2009: 11.32%). The amounts are payable within 2 years.

Interest rate risk (Sensitivity analysis)
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 table
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
2010	± 50	± R1,3 milion
2009	± 100	± R3,5 milion

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

33. INFORMATION REQUIRED IN TERMS OF SECTION 55(2) OF THE PUBLIC FINANCE MANAGEMENT ACT

An amount of R48 657 (2009: R112 189) relating to unrecoverable debts was written off during the year

Fruitless and wasteful expenditure of an immaterial amount of R106 724 (2009: R95 869) was incurred as a result of penalties levied on late deliveries. Of this an amount of R4 888 (2009: R81 690) was recovered after balance sheet date.

34. COMPARATIVE FIGURES/PRIOR YEAR ERROR

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

The first actuarial valuation carried out at 31 March 2009, was compiled based on the assumption that employees will be subject to Armscor's standard conditions of employment. The valuation reflected a liability of R53,4 million and a debtor of R42 million was raised for the unfunded portion and the Department of Defence (DOD) requested to fund the total liability transferred. Subsequent to discussions with the DOD the liability was recalculated based on the conditions of employment existing prior to the transfer of the Dockyard as the Dockyard employees' conditions of employment still remain as when transferred. This resulted in a reduction of the liability to R14,7 million. The prior year figures were adjusted to reflect the lower liability and related debtor.

CORPORATION			GROUP	
2009 Rm	2009 Rm Restated		2009 Rm	2009 Rm Restated
		Statement of financial position		
178.1	139.8	Trade and other receivables (note 20)	203.9	165.6
53.0	14.7	Retirement benefit liability (note 30)	53.0	14.7
		Notes to the Annual Financial Statements		
		21. **Trade and other receivables**		
52.3	14.0	Other receivables - Related parties	52.4	14.1
		30. **Retirement benefits**		
		The accrued liability in excess of plan assets as at 31 March 2009 is summarised below:		
53.4	14.7	Accrued liability	53.4	14.7
53.4	14.7	Accrued liability in excess of plan assets	53.4	14.7
11.4	11.4	Less: Cash received	11.4	11.4
42.0	**3.3**	**Net liability**	**42.0**	**3.3**
		A projection of results of the valuation as at 31 March 2009 to 31 March 2010 is set out below:		
53.4	14.7	Accrued liability as at 31 March 2009	53.4	14.7
4.8	1.3	Interest cost	4.8	1.3
1.9	0.5	Service cost (including interest to year end)	1.9	0.5
(0.5)	(0.3)	Expected employer benefit payments	(0.5)	(0.3)
59.6	**16.2**	**Projected accrued liability as at 31 March 2010**	**59.6**	**16.2**

Statement of changes in equity

The opening balances of the Capital and building maintenance reserve and the General reserve on 1 April 2008 did not reflect a transfer of R3,3 million between these two reserves in 2007, which opening balances have now been corrected. The reclassification has no impact on the Statement of financial position as all reserves are non-distributable.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

		Notes	FEES	BASIC SALARY	OTHER BENEFITS	ALLOWANCES	RETIREMENT AND OTHER CONTRIBUTIONS	TOTAL
					12	13	14	
			R	R	R	R	R	R
34.	**DIRECTORS'/EXECUTIVE MEMBERS' EMOLUMENTS 31 MARCH 2010 Directors' Emoluments**							
	Executive Directors							
	JG Grobler		-	896,457	207,296	103,404	187,995	1,395,152
	HS Thomo	3	-	1,184,403	548,580	144,359	200,959	2,078,301
	Subtotal		**-**	**2,080,860**	**755,876**	**247,763**	**388,954**	**3,473,453**
	31 MARCH 2009							
	JG Grobler	1	-	723,558	216,610	161,047	157,125	1,258,340
	HS Thomo		-	1,378,479	1,460,417	189,480	240,994	3,269,370
	Subtotal		**-**	**2,102,037**	**1,677,027**	**350,527**	**398,119**	**4,527,710**
	Non-Executive Directors 31 MARCH 2010							
	EL Borole		150,642	-	-	-	-	150,642
	N Medupe	5	95,692	-	-	-	-	95,692
	RP Meyer		106,402	-	-	-	-	106,402
	PS Molefe (Dr)		232,380	-	-	-	-	232,380
	LW Mosiako		137,370	-	-	-	-	137,370
	SA Msibi		163,914	-	-	-	-	163,914
	R Msiza		119,674	-	-	-	-	119,674
	V September		132,946	-	-	-	-	132,946
	Subtotal		**1,139,020**	**-**	**-**	**-**	**-**	**1,139,020**
	31 MARCH 2009							
	EL Borole	4	113,388	-	-	-	-	113,388
	N Medupe	5	100,116	-	-	-	-	100,116
	RP Meyer		110,826	-	-	-	-	110,826
	PS Molefe (Dr)		232,380	-	-	-	-	232,380
	MB Molemela	6	6,286	-	-	-	-	6,286
	LW Mosiako	4	108,964	-	-	-	-	108,964
	SA Msibi	4	122,236	-	-	-	-	122,236
	R Msiza	4	104,540	-	-	-	-	104,540
	V September	4	104,540	-	-	-	-	104,540
	Subtotal		**1,003,276**	**-**	**-**	**-**	**-**	**1,003,276**
	TOTAL 31 MARCH 2010		**1,139,020**	**2,080,860**	**755,876**	**247,763**	**388,954**	**4,612,473**
	TOTAL 31 MARCH 2009		**1,003,276**	**2,102,037**	**1,677,027**	**350,527**	**398,119**	**5,530,986**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

	Notes	FEES	BASIC SALARY	OTHER BENEFITS	ALLOWANCES	RETIREMENT AND OTHER CONTRIBUTIONS	TOTAL
				12	13	14	
		R	R	R	R	R	R
34. MANAGEMENT BOARD EMOLUMENTS 31 MARCH 2010 Executive Members							
NRM Borotho		-	1,121,217	199,154	105,054	146,592	1,572,017
TT Goduka		-	863,358	152,219	133,932	187,628	1,337,137
D Griesel	11	-	325,190	72,196	74,032	75,462	546,880
MM Matibe		-	653,628	177,112	233,495	165,758	1,229,993
SP Mbada	10	-	472,815	18,638	98,847	68,381	658,681
JS Mkwanazi	2	-	1,280,625	260,237	138,436	233,999	1,913,297
IF Potgieter (Dr)	8	-	252,516	71,573	89,108	60,906	474,103
KP Hanafey	9	-	835,248	146,520	127,895	170,622	1,280,285
Subtotal		**-**	**5,804,597**	**1,097,649**	**1,000,799**	**1,109,348**	**9,012,393**
31 MARCH 2009							
NRM Borotho		-	1,051,703	352,051	104,028	138,793	1,646,575
TT Goduka		-	802,212	197,798	133,932	170,093	1,304,035
MM Matibe		-	579,606	218,862	219,619	145,905	1,163,992
JS Mkwanazi		-	1,114,261	337,209	87,456	201,908	1,740,834
TN Msomi	7	-	834,504	162,724	79,932	144,777	1,221,937
IF Potgieter (Dr)		-	559,188	154,632	223,056	134,081	1,070,957
Subtotal		**-**	**4,941,474**	**1,423,276**	**848,023**	**935,557**	**8,148,330**
Directors' Emoluments Armscor Business (Pty) Ltd 31 MARCH 2010							
KP Hanafey	9	-	427,032	66,303	65,389	87,787	646,511
E Hurter		-	838,545	283,902	131,536	182,567	1,436,550
Subtotal		**-**	**1,265,577**	**350,205**	**196,925**	**270,354**	**2,083,061**
31 MARCH 2009							
E Hurter		-	894,349	198,188	96,780	162,588	1,351,905

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

Notes applicable to note 34

1. Acted as General Manager: Finance and Infrastructure from 1 December 2007. Appointed as General Manager: Finance and Infrastructure on 1 August 2008 and appointed to the Board of Directors on 11 September 2008.
2. Appointed on 19 November 2009 as acting CEO.
3. Employment contract terminated with effect from 7 January 2010.
4. Appointed as Director from 1 May 2008.
5. Appointed as Director from 1 May 2008 and resigned 3 February 2010.
6. Appointed as Director from 1 May 2008 and resigned with effect from 31 May 2008.
7. Resigned with effect from 31 March 2009.
8. Appointed from 14 January 2008 as Management Board member (Acting General Manager: Human Resources) to 31 August 2009.
9. Appointed from 1 April 2009 as Management Board member (Acting General Manager: Armscor Business) and appointed as Director of Armscor Business from 1 October 2009. The emoluments reflected under director's emoluments is included in the emoluments reflected as executive Management Board member.
10. Appointed from 1 September 2009 as Management Board member (General Manager: Human Resources).
11. Appointed from 23 November 2009 as Management Board member (Acting General Manager: Acquisition).
12. Other benefits include bonus (13th cheque), performance related payments, restraint of trade payments and leave capitalisations.
13. Allowances include sums paid by way of expense allowances, i.e. computer, club motor, cell phone allowances, acting allowance and long service awards.
14. Retirement benefits include contributions made to any pension fund; medical benefit fund; medical aid; unemployment and funeral funds.
15. No emoluments are paid to Armscor Business ex-officio Directors: messrs JG Grobler, KP Hanafey (appointed 1 October 2009), NRM Borotho (appointed 1 October 2009), SP Mbada (appointed 1 October 2009), JS Mkwanazi (appointed 7 January 2010) and HS Thomo (removed as director on 7 January 2010).

Share options

No share options exist and therefore no share option gains are included in the amount of emoluments received as directors of the corporation.

Directors' service contracts

Notice periods in respect of employment contracts of executive directors do not exceed one year. Non-Executive directors are appointed for a three year period and not bound by employment contracts.

Pensions

Pensions paid or receivable by executive directors are paid or received under defined contributory pension schemes

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

35. RELATED-PARTY DISCLOSURES

The Armaments Corporation of South Africa Limited ("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 Limited Act (Act No 51 of 2003).

To execute it's mandate, Armscor received a Government grant of R528,9 million (2009: R479,0 million) from the State through the Department of Defence (DOD).

Investment in subsidiaries and loans from subsidiaries as detailed below are set out in note 24 of the financial statements.

SUBSIDIARIES	2010 Rm	2009 Rm
Armscor Business (Pty) Ltd (Loan from)	(56.2)	(69.2)
Armscor Business (Pty) Ltd (Loan to)	40.9	40.9
Erasmusrand Eiendomme (Pty) Ltd (Loan to)	136.0	136.0
Oospark (Pty) Ltd (Loan to)	1.1	1.1
Sportrand (Pty) Ltd (Loan to)	2.0	2.0
	R	R
Institutes for Maritime Technology (Pty) Ltd (Loan from)	(4.0)	(4.0)

Unsecured non interest bearing loans with no fixed repayment conditions. The shareholder has subordinated it's right to claim repayment of it's loan until such time as the assets of the corporation, fairly valued, exceeds it's liabilities.

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	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm	2010 Rm	2009 Rm	2010 Rm	2009 Rm
Armscor Business	25.6	14.5	43.2	33.7	0.3	0.7	-	-
Department of Defence	666.5	1,177.9	42.1	29.3	11.2	16.7	59.3	43.9
State controlled entities								
Major national public entities (Schedule 2 and 3 public entities)	154.3	151.7	923.2	1,385.1	9.8	21.3	26.8	1.2
National Government	32.1	32.8	-	-	0.9	11.3	8.4	3.2

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at normal market prices. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related-party receivables or payables. For the year ended 31 March 2010, the group has made provision for doubtful debts of R55,1 million (2009: R37,1 million) relating to amounts owed by related parties.

Included in the above figures are payments of R6,1 million (2009: R5,8 million) in respect of a service level agreement paid by Armscor Business to Armscor, an amount of R38,9 million (2009: R33,7 million) paid by Armscor to Armscor Business for subsidiary support, rent of R1,9 million (2009: R1,9 million) paid by Armscor Business to Armscor and net interest paid to Armscor Business by Armscor of R4,3 million (2009: R7,7 million).

In accordance with Armscor's mandate, acquisition was undertaken on behalf of the Department of Defence. These transactions are set out in note 15 of the financial statements.

Armscor Business had the following business with the DOD, as stated below.

	Sales of goods to related parties		Purchases of goods from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm	2010 Rm	2009 Rm	2010 Rm	2009 Rm
Special and General Defence Account	124.4	112.8	-	8.9	11.5	1.6	6.6	4.8

Directors

Directors' interests in related parties: No interests in related parties have been declared by Armscor Directors.

One of Armscor's Executive Directors and three Armscor Management Board Members are ex-officio directors of the Armscor Business Board of Directors at 31 March 2010. One Armscor Executive Director is also ex-officio director on the Boards of Erasmusrand Eiendomme (Pty) Limited, Sportrand (Pty) Limited and Oospark (Pty) Limited. None of these members received additional remuneration as directors serving on these boards

SUPPLEMENTARY SCHEDULE TO THE ANNUAL REPORT

(As requested by the National Treasury in their letter dated 16 July 2010)

DISCLOSURE OF EXPENDITURE RELATING TO SOCCER WORLD CUP CLOTHING AND TICKETS FOR THE YEAR ENDED 31 MARCH 2010

		2009/2010	2008/2009
	Quantity	R '000	R '000
Tickets acquired	**26**	**24.5**	**-**
Distribution of tickets			
Clients/Stakeholders	16	16.1	-
Senior Management	2	1.7	-
Other employees	8	6.7	-
Travel cost	**-**	**-**	**-**
Purchase of other world cup apparel	**-**	**-**	**-**
Total world cup expenditure	26	24.5	-
Tickets acquired after year-end (31 March 2010)			
Other employees	4	1.8	

ABBREVIATIONS

ABET	Adult Basic Education and Training
ADAC	Armscor Defence Asset Management
ADI	Armscor Defence Institutes
AFB	Air-Force Base
ALFA	Advanced Light Fighter Aircraft
AIS	Automatic Identification System
AMSL	Airbus Military Sociedad Limitada
AUS	Autonomous Underwater Vehicle
BBBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
CALMIS	Computer-Aided Logistic Management Information System
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CSI	Corporate Social Investment
DEFCOM	RSA-Kingdom of Saudi Arabia Defence Committee
DEPS	Defence Equipment and Personnel Support
DERI	Defence Evaluation and Research Institutes
DES	Defence Export Support
DIP	Defence Industrial Participation
DMD	Defence Materiel Disposal
DRDB	Defence Research and Development Board
EDM	Engineering Development Model
EEZ	Exclusive Economic Zone
GBADS	Ground-Based Air Defence System
GDA	General Defence Account
ICT	Information and Communication Technology
IMT	Institutes for Maritime Technology
IPMS	Intellectual Management Property Support
IR	Infrared
IT	Information Technology
KPI	Key Performance Indicator
LIFT	Lead-In Fighter Trainers
LMS	Learner Management System
LWS	Local Warning Segment
MBES	Multi-Beam Echo Sounder
NATO	North Atlantic Treaty Organization
NBC	Nuclear, Biological and Chemical
NEHAWU	National Education and Allied Workers Union
NIP	National Industrial Participation
NQF	National Qualifications Framework
PMP	Pretoria Metal Pressing
SA Navy	South African Navy
SAAF	South African Air Force
SABS	South African Bureau of Standards
SACAA	South African Civil Aviation Authority
SADC	South African Development Community
SADRI	South African Defence-Related Industries
SAMHS	South African Medical Health Services
SANDF	South African National Defence Force
SAPS	South African Police Service
SARS	South African Revenue Service
SDA	Special Defence Account
SDP	Strategy Defence Package
SETA	Sector Education and Training Authority
SHE	Safety, Health and Environment
SLA	Service Level Agreement
TDP	Talent Development Programme
UK	United Kingdom
UL	Unit Load

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ARMSCOR
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