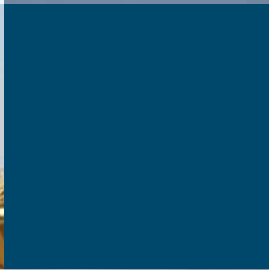


annual report
2009



*gateway
to defence solutions*



ARMSCOR

ARMAMENTS CORPORATION OF SOUTH AFRICA LTD

annual report
2009



*gateway
to defence solutions*



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Arm Scor's vision is

to be a truly South African organisation that is valued locally and globally as a centre of technical excellence for defence acquisition and support services.

Arm Scor's vision is

to meet the acquisition, maintenance and disposal needs of the South African Department of Defence and other clients in terms of defence matériel, related products and services. Arm Scor maintains strategic capabilities and technologies and promotes the local defence-related industry.

Arm Scor believes that

its values constitute the building blocks of the manner in which it conducts its business. We believe in the highest standards and are committed to equal opportunities, transparency and accountability. We pledge commitment to the following values: Leading by example, results driven, customer focus, care and respect for others, excellence, teamwork and integrity.

CORPORATE PROFILE

Arm Scor is a statutory body. The Minister of Defence is the Executive Authority responsible for Arm Scor. The management and control of Arm Scor reside with a Board of Directors, whilst its day-to-day management vests in the hands of the Management Board.

In the execution of its functions Arm Scor has established and 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 AS AN ACQUISITION AGENCY

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

The acquisition role of Arm Scor pertains to all the actions that need to be taken to satisfy the need for matériel, facilities or services intended for client use or in support of client requirements. These actions include long-term operational research, requirement planning, establishment and development of technology, design and development of products and systems aimed at industrialisation, and manufacturing of mature products and systems that fully meet the stated user requirements. The acquisition role can be broadly divided into the following four categories: System acquisition management, procurement management, product systems management and technology acquisition management.

Arm Scor, in addition, also performs the following functions:

- Quality assurance;
- Defence Industrial Participation (DIP);
- Management of strategic facilities, and
- Defence support.

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

The management of strategic facilities is vested in a subsidiary company, Arm Scor Business (Pty) Limited.

To fulfil this mandate, Arm Scor Business is structured into two groups, namely:

Defence Science and Technology Institute, which houses the research and development facilities, and Test and Evaluation Centre, which is responsible for rendering comprehensive test and evaluation services in both the military and the civilian environment.

CHAIRMAN'S REPORT

In our past Annual Report we stated that Armscor is positioned and remained committed to discharging its responsibilities in terms of the Armscor Act (51 of 2003) and other government prescripts.

Armscor's objectives are to meet the defence matériel requirements of the Department of Defence effectively, efficiently and economically and further to meet the defence technology, research and development analysis, and test and evaluation requirements of the Department of Defence.

Key to Armscor's sustainability and survival is to ensure that it plays a central role in the achievement of a competitive South African Defence Industry. I had further indicated during the preceding financial year that the Department of Defence had approved the Armscor Transformation Desktop Study on the Preferred Future Corporate Form for Armscor, which constituted a blue-print for the transformation of Armscor.

Further more, in order to grow and ensure that the South African Defence Industry achieved a competitive edge, it was considered necessary to establish a Defence Evaluation and Defence Institute (DERI). The strategic intent of the DERI was and remains the creation of a new centre of excellence, the consolidation and streamlining of defence technology, research, development, test and evaluation capability in South Africa.

The desktop study on the DERI was completed and presented to the Defence Staff Council and the Armscor Board of Directors.

It was envisaged that the DERI would be established as an independent entity which might use the existing legal entity as a vehicle for establishment.



Dr PS Molefe
Chairperson - Armscor

As the previous Minister left before this task was completed, Armscor will take forward this matter and related ones with the Minister of Defence and Military Veterans, the Honourable Ms Lindiwe Sisulu, and her Deputy, Mr Thabang Makwetla, respectively on these strategic initiatives to seek the necessary support and guidance.

The Armscor Board of Directors is cognisant of the fact that current and future requirements of the Department of Defence and the optimum functioning of the local defence-related industry dictate the repositioning of Armscor to ensure that it remains relevant and valuable to its stakeholders as they pursue their strategic priorities.

Dr PS Molefe
Chairman

The Year's Overview

Corporate governance

Armscor is accountable to its shareholder and the rest of its stakeholders, and endeavours to ensure that this relationship with its stakeholders is nurtured, and managed in the interest of the Corporation and the South African Public.

The Armscor Act enjoins the Corporation to enter into a Service Level Agreement with the Department of Defence, based on the Shareholder's Compact as contemplated in the Public Finance Management Act. The Service Level Agreement ensures that the Board remains accountable to the shareholder in its responsibilities as a defence acquisition agent,

Mr JG Grobler

Mr LW Mosiako

Ms V September

Mr EL Borele



in relation to the Special Defence Account and the General Defence Account.

The relationship between the Department of Defence and Armscor is based on constructive engagement and mutual understanding of each other and complementation of their functions and responsibilities.

Armscor continues to exemplify good corporate governance principles. The Board has resolved the grievance by the then General Manager of Corporate Affairs lodged against the Chief Executive Officer, and both parties have committed themselves to working in the best interest of the Corporation.

In addition, the Board concluded a contract of employment with the Chief Executive Officer. In doing so the Board changed the situation of life-long employment of the CEO, which was a legacy of the past, to one where he would be tied to a contractual relationship.

In ensuring that its responsibilities are being adequately and properly discharged, the Board of Directors established several committees of the Board to efficiently advance the business of the Board. To this end Audit and Risk and Human Resources as well as Executive Committees have been established to assist the Board.

Mr HS Thomo
Chief Executive Officer

Ms R Msiza

Mr RP Meyer

Ms N Medupe

Mr SA Msibi



To ensure that the Corporation performs on its strategic mandate, it is imperative that the Board performs an annual monitoring and evaluation of its performance. The Board is in the process of reviewing its methodology of formal evaluation to improve the assessment of performance of individual Board members and that of the Board as a collective. The assessment will consist of a self-evaluation as well as an evaluation by an external service provider.

The Board is also establishing a Code of Ethics. This will be done by engaging various stakeholders to assist in determining the standard of ethical behaviour required but also envisaged by them.

Legislative assessment

The Corporation endeavours to comply with all relevant laws and directives regulating the Corporation's operations. The Corporation has to this end conducted a legislative compliance assessment on certain pertinent legislation affecting the Corporation. The said legislative assessment did not result in any negative findings against the Corporation.

Criteria for the payment of performance remuneration

The Board of Directors approved the criteria to be used for the payment of performance remuneration for the 2008/2009 financial year. The goals, key performance indicators and the targets as entailed in the Corporation's Corporate Plan will form the basis for determining the criteria for a specific financial year. The Corporation's performance will be measured by the Board, based on the achievement of the measurements and targets agreed to with Executive Management.

Cardinal Programmes

Armscor continues to discharge its responsibility in its undertaking of cardinal capital acquisition programmes. Various programmes have been undertaken to date, and the Board is continuously provided with reports highlighting any significant risks and any pertinent issues of the programmes executed by the Corporation.

Furthermore, the Corporation continues to promote

the Defence industrial obligations in order to advance the interests of the South African industry. The Chief Executive Officer's report provides in-depth details of cardinal and capital acquisition programmes.

Naval Dockyard Simon's Town

Consistent with the mandate given to the Corporation in regarding the Naval Dockyard Simon's Town, Armscor continues to operate the Dockyard as a strategic facility on behalf of the Department of Defence. The challenge for the Corporation is to ensure that the operation of the facility is stabilised in order to enable optimum efficiency.

Acknowledgements

On behalf of the Board, Management and Staff, I wish to warmly welcome our new Minister of Defence and Military Veterans, Ms Lindiwe Sisulu, and her Deputy, Mr Thabang Makwetla. We congratulate them on their appointment and wish them successful and exciting terms of office.

The Board of Directors and I commit ourselves to forging a productive relationship with them based on mutual trust and respect. The Board would, furthermore like to thank the Acting Secretary for Defence, Mr TE Motumi, the Chief of the SANDF Gen GN Ngwenya, the former Chief of Defence Materiel, Mr B Ramfelo, the Chief of the Army Lt Gen SZ Shoke, Chief of the Navy, Vice Admiral JB Mudimu, Chief of the SAAF, LT Gen C Gagiano, as well as the current Chief of Defence Materiel, Mr A Visser, for their support and understanding in this challenging time.

On a sad note, we pay tribute to the late Secretary for Defence, Mr January Masilela whose dedication and commitment towards the building of a non-racial and non-sexist South Africa was invaluable. Without him the defence industry is poorer.

It is my privilege to thank the former Ministers of Defence, Mr MGP Lekota and Mr C Nqakula, as well as the former Deputy Ministers of Defence, Mr ME George and Mr F Bhengu, whose guidance and support were crucial to the success of the Corporation.

It was indeed a pleasure to have served the Department of Defence, in particular, the SANDF, the SAPS and the South African Correctional Services. We will continue to provide such necessary support within the limited budget constraints when called upon to do so.

Our sincere thanks go to the Parliamentary Portfolio Committee on Defence which contributed immensely to the successful execution of our mandate. The defence industry through the stewardship of the South African Aerospace Maritime and Defence Industries Association has also been pivotal in the success of the Corporation.

I am indebted to the Board, CEO, Mr HS Thomo, the Management and Staff for their hard work which has been invaluable in ensuring that Armscor achieves success in the 2008/2009 financial year. Together we look to the future with hope.

A handwritten signature in black ink, appearing to read 'Molefe', with a stylized flourish extending to the right.

Dr PS Molefe
Chairperson

CHIEF EXECUTIVE OFFICER'S REPORT

Another challenging year has passed. Through the able and committed leadership Armscor was successful in turning the challenges it faced into opportunities.

During the year under review, Armscor was able to demonstrate its commitment to support the Department of Defence (DOD), and the defence-related industry at large.

In this report, the following will be dealt with:

- Funding of Armscor and its impact
- Erosion of technical capabilities
- Retention and rejuvenation of the workforce
- Restructuring of Armscor
- Defence environment analysis and its impact on Armscor
- Highlights and future challenges
- Review of the previous financial year

Funding of Armscor

To fund its operations, Armscor receives its income as transfer payment from the DOD. For the past three years, this transfer payment was increased by an average of 5%. This is a decrease in real terms considering the inflation rate of up to 13,6% during the period under review. The long-term risk is that Armscor may not be able to fulfil its mandate. However, for the period under review additional amounts of R11,3m and R2,3m were given for both Armscor and the Armscor Dockyard respectively. These payments assisted Armscor in paying market-related salaries in an effort to retain critical capabilities.

Erosion of technical capabilities

Armscor continues to lose key personnel and, as a result, loses critical capabilities. Thus Armscor's ability to provide a quality service to its customers and to meet its Service Level Agreement (SLA) objectives is negatively affected.

Retention and rejuvenation of the workforce

Armscor faces two major challenges. One challenge is to transform the Corporation in a manner that is in accord with the country's demographic profile, and the other one is – in view of the Corporation's ageing and predominantly white workforce – to transform and renew the employee profile. The inadequate funding has contributed to the slow pace of affirmative action in the Corporation. Transforming and renewing Armscor's workforce systematically requires a typical lead time of two or three years in order to transfer expertise from a current incumbent to a new appointee who has limited or no experience in the defence-related industry. In addition to finding the right engineer and technicians to whom the experience of current Armscor engineers and technicians can be imparted, retaining personnel by offering them competitive salaries and meaningful employment remains critical for the Corporation.

Negotiations took place with the DOD and National Treasury in the period under review concerning the inadequate funding. The problem has been partially addressed and should be resolved in the next financial year.

Restructuring of Armscor

Following on the earlier Cabinet decision to refocus Armscor on its key role as an Acquisition organisation of the State, as well as the request of the former Minister of Defence, Mr Lekota, to reclassify Armscor as a schedule 3A Public Entity, Armscor embarked on a benchmarking investigation into the best possible future corporate form for Armscor, as mandated by the Armscor Board of Directors. The outcome of the investigation, namely that Armscor remain a schedule 2 major public entity under the present PFMA, was presented to the Plenary Defence Staff (PDSC), the Secretary for Defence and the Minister of Defence.

The Minister of Defence accepted the proposal of the preferred future.

Implementation of Defence Evaluation and Research Institute (DERI)

The appointment and tasking of the acting CEO of the DERI was effected by the late Secretary for Defence, Mr January Masilela.

The tasking called for the establishment of the DERI with due consideration for all the required elements, whilst ensuring compliance with all legislative, Departmental and Treasury regulations.

The mandate to initiate this activity stems from the approved Cabinet Memorandum of 2007 and the subsequent desk-top study that was performed with the involvement of all the stakeholders concerned and approved at a Directors General meeting convened for this purpose.

Various management and working group forums were set up for the implementation of the tabled strategies and plans, and all the organisations and State Departments involved are represented on these forums.

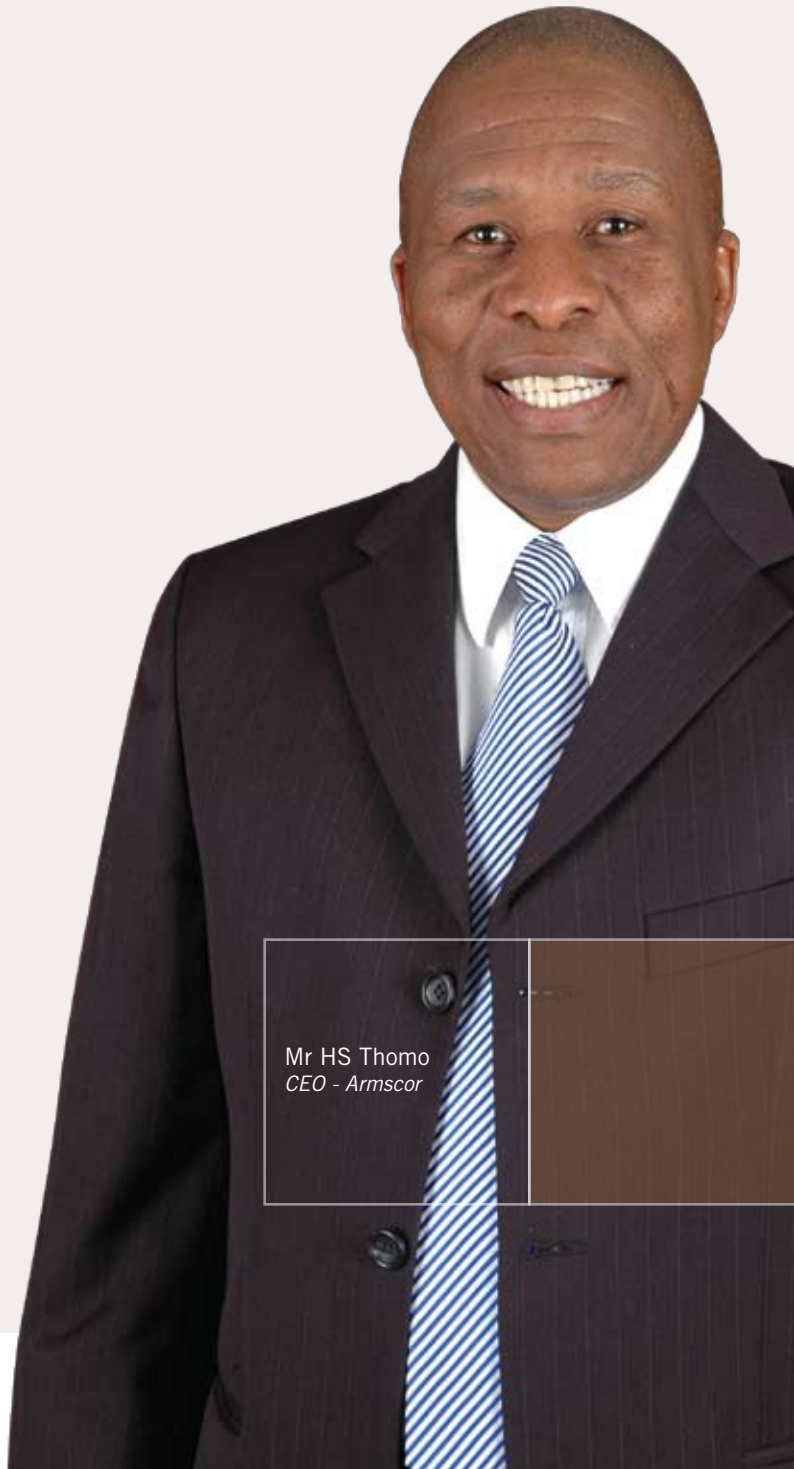
Discussions with stakeholder State Departments have confirmed that detailed independent information gathering is necessary in order to ensure the integrity of the role definition, structuring and business planning processes that will have to be created prior to formal governmental approval for the establishment of the DERI.

Defence environmental analysis and its impact on Armscor

The DOD Annual Environmental Scan, in conjunction with Government's Medium Term Strategic Framework priorities, reconfirmed that the following issues have an impact on Armscor:

- In the absence of any military threat against South Africa and the preponderance of non-military threats to security in the region, the defence function remains relatively low on Government's list of priorities.

- The defence budget and the allocation to Armscor are therefore unlikely to increase and will remain under pressure.
- The improvement of the quality of corporate governance and accountability will remain high priorities.
- The conduct of peace missions in the region and assistance to other government departments as and when required are likely to remain important components of DOD activity for the foreseeable future.



Mr HS Thomo
CEO - Armscor

The DOD has nevertheless identified a clear requirement for a dedicated defence evaluation and research organisation, which will include elements currently residing in Armscor Business (Pty) Ltd.

Selective investment in defence technology and the supporting industry will continue as a means of providing key capabilities to the South African National Defence Force (SANDF).

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

The annual environmental scan further confirmed that focused, committed leadership, the quality of the current workforce, teamwork, robust processes, a positive corporate image and good client relations remains a requirement on which Armscor can build its future.

HIGHLIGHTS OF THE PAST AND CHALLENGES OF THE FUTURE

Progress with the strategic defence packages

In December 1999, the South African Cabinet authorised Armscor to contract the Strategic Defence Packages (SDPs) with six international suppliers for the acquisition of frigates, submarines, lead-in fighter trainer aircraft, advanced light fighter aircraft, light utility helicopters and maritime helicopters. In line with this Cabinet decision, contracting for the maritime helicopters was deferred until the acquisition of the frigates had progressed sufficiently and this contract was signed in August 2003.

The Defence Industrial Participation (DIP) obligations relating to the SDPs presented a seemingly insurmountable challenge. However, as these DIP programmes draw to a close, with four of them successfully completed, there is sufficient evidence of significant benefit to the local defence industry. In part the success can be attributed to stringent conditions for performance, such as fixed six monthly performance milestones, exact criteria for the activities to qualify for offset credit, and strong penalties for non-performance. To date, 87% of the total obligation has been discharged and the

outstanding 13% is not considered to be a risk as the Maritime Helicopter and Gripen programmes are only scheduled to be completed by 2010 and 2011 respectively.

- Submarine programme

The submarine programme provides for the acquisition of three Class 209 submarines from the German Submarine Consortium (GSC), for the South African Navy.

The submarine acquisition programme has progressed exceptionally well. The last of the three submarines, SAS QUEEN MODJADJI, was contractually handed over to the SA Navy in Kiel, Germany, on 30 January 2008, after which it sailed to South Africa and was commissioned in Simon's Town on 26 May 2008. All three submarines are presently undergoing test and evaluation trials in South African waters.

The DIP obligation of the German Submarine Consortium (GSC) on this programme is R1,12 billion, which was now fully discharged in the form of work packages, technology transfers and export orders to the benefit of local defence-related companies.

- Frigate programme

The frigate programme entails the acquisition of four (4) Meko® A-200 frigates from the German Frigate Consortium (GFC), for the South African Navy. All four frigates have been commissioned and operational test and evaluation trials are now approaching their final stages, with planned completion towards the middle of 2009. Maintenance support contracts for the completed vessels have already been concluded both with local and foreign contractors.

The total DIP obligation of this programme is R2,9 billion, split between the German Frigate Consortium (GFC) for the Platform (R564 million) and Thales Naval France (TNF) for the Combat Suite (R2 377 million). The Platform obligation has been fully discharged by the GFC, and to date R1,605 billion of the Combat Suite obligation has been discharged. The outstanding portion relates to TNF's subcontractor, MBDA, and in order to negate the risk of losing significant benefit to industry, a

portion (R949 million) of the TNF obligation was renegotiated, resulting in the separation from the current TNF DIP Agreement and conclusion of a new agreement with MBDA.

- Light utility helicopter programme

This programme entails the acquisition of thirty light utility helicopters (LUH) for the South African Air Force from Agusta Westland in Italy. At the end of the reporting period, twenty-eight of the thirty helicopters ordered had been delivered to the SAAF.

In 2007 Agusta Westland was the first obligor under the SDPs to successfully discharge its full offset obligation under a DIP programme relating to the SDPs.

- Advanced light fighter programme

The contract with the BAE Systems/SAAB consortium provides for the supply of twenty-six JAS39 Gripen advanced light fighter aircraft to the SAAF. The aircraft are presently being manufactured by SAAB at their Linköping factory in Sweden.

At the end of the reporting period, five Gripen aircraft had been delivered to South Africa. Both the 6th and 7th aircraft were shipped from Sweden on 6 March 2009 with a planned arrival in RSA during the first week of April 2009. The delivery plan for the remaining aircraft is unchanged and on schedule, with the entire programme expected to conclude in March 2012.

The DIP obligation of SAAB on this programme is R5 billion, of which R4 billion or 79% has been fulfilled to date. SAAB has until 2011 to discharge the remaining portion of the obligation.

- Lead-in fighter trainer aircraft programme

This programme provides for the acquisition of twenty-four Hawk lead-in fighter trainer aircraft for the SAAF from BAE Systems in the UK. In terms of the DIP agreement with BAE Systems, all twenty-four aircraft are to be assembled locally by Denel Aviation.

All 24 aircraft have now been accepted and delivered to 85 Combat Flying School at Air Force Base Makhado.

The DIP obligation on this programme was R4,3 billion and BAE Systems succeeded in fulfilling this obligation well in advance of the final contractual milestone of April 2009.

- Maritime patrol helicopter programme

This programme entails the acquisition of four Super Lynx 300 Mk 64 helicopters from Augusta Westland in the UK. All four helicopters were delivered to Air Force Base Ysterplaat in July 2007 for eventual deployment to the South African Navy Valour (Meko A200) class frigates. During the reporting period the helicopters were subjected to Operational Test and Evaluation by the SAAF. The Operational Test and Evaluation is being conducted in preparation for full Release to Service, which is planned for the last quarter of 2009.

The DIP obligation of the maritime patrol helicopters is R553 million, to be completed in March 2010. To date R292 million or 53% has been discharged. Updated planning shows the completion of and claims for the remaining activities to take place before the end of the contractually agreed obligation period.

- Airbus A400M heavy-lift transport aircraft

On 28 April 2005, a contract was established with Airbus Military Sociedad Limitada (AMSL) for cooperation by South African Industry in the design and development of the A400M aircraft and for the subsequent supply of eight A400M military strategic heavy-lift aircraft to the South African Air Force during the period 2010–2012.

The programme initially progressed very well, but in October 2007 a formal announcement was issued by AMSL, indicating an initial six-month delay. Since then the programme has unfortunately incurred further serious delays due to various technical problems during development, and all indications at present are that the programme could be delayed by as much as five years. The development programme is being monitored very carefully together with the other participating nations, and all possible options for the SAAF are being considered.

REVIEW OF THE PREVIOUS FINANCIAL YEAR

In the period under review Armscor concentrated on finalising the following objectives:

- Implementation of the Armscor Acquisition benchmarking study recommendations;
- Further implementation of black economic empowerment;
- Finalisation of the transfer of the Simon's Town Naval Dockyard to Armscor.

Implementation of the acquisition benchmarking study recommendations

In July 2004 a successful internal project was launched to benchmark Armscor's tendering and contracting process. It was concluded in March 2005, with a number of recommendations that have been implemented.

Implementation of black economic empowerment

Broad Based Black Economic Empowerment (BBBEE) was implemented at Armscor in October 2008. This is in line with the media statement issued by the Minister of Trade and Industry on 31 August 2008, indicating the official end of the transitional period for compliance with the Broad Based Black Economic Empowerment Act's Codes of Good Practice ("The Codes").

The BBBEE Scorecard has seven elements, namely: Ownership, Management Control, Employment Equity, Skills Development, Preferential Procurement, Enterprise Development and Socio-Economic Development.

In order to achieve better results in BBBEE, Armscor has also introduced a mandatory 25% black equity/joint venture clause in the tendering process. The Department of Trade and Industry was consulted before implementation and has fully supported it.

Transfer of the Simon's Town Naval Dockyard to Armscor

This has been the first full year of the Dockyard under the management control of Armscor. The year proved both exciting and challenging, with great achievements.

A number of successes were achieved in the execution of SA Navy projects and support services, establishment of a Recognition Agreement with organised labour, great improvements on Safety, Health and Environment, and excellent external client audit feedback.

The Dockyard undertook a number of commercial ship repair and maintenance projects, with the key highlights being the successful undertaking on the British Royal Navy Ice Patrol Vessel HMS ENDURANCE and the repairs to structural damages of two Uruguayan warships.

Mr HS Thomo
CEO

Mr JG Grobler
GM: Finance and Infrastructure

Ms NRM Borotho
GM: Corporate Affairs

Mr TT Goduka
GM: Dockyard

Mr JS Mkwazi
GM: Acquisition



MANAGEMENT BOARD

The next reporting period is to focus on finalising the reorganisation and streamlining the operation.

ACKNOWLEDGEMENTS

With Armscor's success as background it is my privilege to thank our former Ministers of Defence, Mr MGP Lelota and Mr C Nqakula, and their Deputies, Mr ME George and Mr F Bhengu, for their guidance and support. Thank you to the late Secretary for Defence, Mr J Masilela, who served the Department of Defence with passion and loyalty, as well as to the acting Secretary for Defence Mr T Motumi for his invaluable support to Armscor. May I extend my appreciation to the officials of the Department of Defence who were at all times available and willing to assist in matters of departmental procedure.

The South African defence-related industry has once again delivered its respected high standard and quality defence equipment to our clients and I congratulate the industry on being able to do so under very challenging circumstances.

The industry has continued to receive compliments and high praise for its products and its abilities throughout the year.

Thank you firstly to the Armscor Board of Directors, to whom I am greatly indebted for their wisdom and direction to Armscor.

Secondly to the Armscor Management Board and staff for their contribution to what has been achieved during the past year, it has been full of challenges but was handled commendably.

Armscor can, with confidence, look forward to meeting the challenges of the future and playing its important role in the "Defence Team" and in the Defence Ministry. The Armscor name and flag will, I am quite certain, continue to fly proudly.



Mr HS Thomo
Chief Executive Officer

Ms N Msomi
GM: Board Secretarial and
Legal Services

Mr MM Matibe
Acting GM: Quality and IT

Dr IF Potgieter
Acting GM: Human Resources

Mr E Hurter
Acting GM: Armscor Business

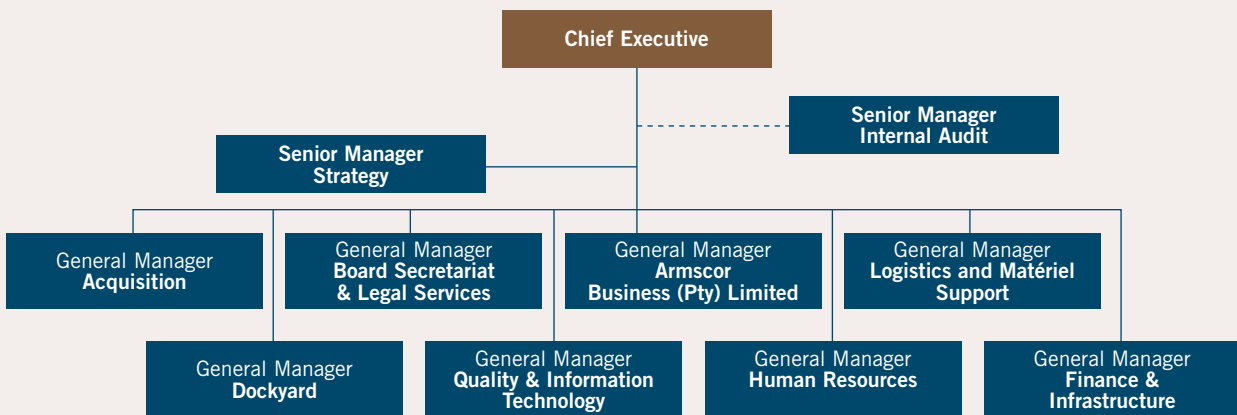
Mr BN Griffiths
Acting GM: Logistics and
Matériel Support



REVIEW OF OPERATIONS

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

Organisational Structure



*Corporate Affairs Department was incorporated in different Departments

Function

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

The acquisition role of Armscor entails all the actions that need to be taken to satisfy the need for matériel, facilities or services intended for use in or in support of client requirements. This includes long-term operational research, requirement planning, establishment and the management of technology development, design and development of products and systems, and the industrialization and manufacturing of mature products and systems that fully meet the stated user requirements.

Armscor's acquisition role (Acquisition Business Management) can be broadly divided into four categories, namely System Acquisition Management, Procurement Management, Product

Systems Management, and Technology Acquisition Management. System Acquisition Management presently represents the bulk of Armscor's acquisition function and involves all the activities from the translation of mission and related needs into appropriate technical specifications, to the provision of operationally effective, suitable, survivable and supportable products and systems in accordance with the stated requirements of Armscor's clients. Procurement Management entails the procurement of existing commercially-off-the-shelf (COTS) or military-off-the-shelf (MOTS) equipment. Products System Management entails the support provided to Armscor's clients during the operating phase of products and systems and includes the maintenance and logistic support of such products and systems. Technology Acquisition Management entails the contracting for and development of technology in support of future acquisition programmes.

A significant portion of the Programme Management function in Armscor is centred on the acquisition of complex systems and entails the execution of the System Acquisition Management role. Armscor's acquisition involvement traditionally starts with the receipt of an approved User Requirement from its client. From there a formalized 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 formalized 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 providing 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 through Advanced Development and Engineering Development Models up 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 programmes 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 programmes are Integrated Project Teams that comprise members from Armscor and the Department of Defence (DOD) with the responsibility to properly and adequately meet all the programme management requirements. Such integrated project teams are led by Armscor Programme Managers and, depending on the extent and complexity of a programme; various domain specialists are added to the teams to perform specific roles. In order to properly execute their diverse responsibilities, Armscor Programme Managers not only need to be knowledgeable in their specific technical domains, but also need to be proficient in, for instance, the systems and logistics engineering, commercial and legal fields.

In order to properly execute its professional project management responsibility as required by the Armscor Act, it is essential that the proficiency level of Armscor's Programme Managers be maintained and continually updated – in all the required domains. In order to achieve this, specific in-house developed training courses and modules have been developed that are focussed specifically on the competencies required by personnel in the various subdisciplines within the acquisition environment. These training modules, which are mostly computer based, serve both to fast track new programme managers and to act as refresher courses for current programme managers.

Armscor's Acquisition Department is functionally structured with technical divisions focussing on specific technical disciplines. The technical divisions thus provide a home base to programme managers specializing in the specific technical domains. In order to improve liaison and interaction with the DOD, Armscor's main client, divisions within the Acquisition Department have been grouped together so as to mirror the structure of the DOD's Defence Matériel Division (DefMatDiv) as far as possible. This grouping as far as possible provides single points of entry to the respective DefMatDiv Directorates and has served to provide significant improvement in communication with the DOD. The Acquisition Department continually strives to improve and streamline its interaction with the DOD and is, as a result of this effort, in the process of developing a new departmental structure in collaboration with the DOD's DefMatDiv that, once implemented, should fully satisfy the requirements of the DOD in terms of allocation of responsibility and should also ensure optimal employment of the very scarce human resources that are vested in the Acquisition Department.

The utilization of new technology in the design and development of equipment is important in order to optimize 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 utilization of suitable modern and mature technology, Armscor and the DOD identify and manage a number of technology development programmes within local industry, which are aimed at supporting identified future system development

programmes. Armscor Programme Managers, utilizing their specialist knowledge in the various applicable technological domains, have been very successful in identifying technology building blocks that needed to be matured for eventual implementation in planned development projects. The research into and development of identified critical technologies that are subsequently utilized in the development of new products systems has in the past contributed greatly towards providing the SANDF with competitive advantages in its weapon systems. Involvement in the initiation of new technology development projects remains a very important aspect of the responsibilities of Armscor's Programme Managers and in order to effectively execute this responsibility it is imperative that the programme managers remain technologically up to date in their specific areas of expertise. It is essential, therefore, that the programme managers gain as much exposure as possible to new developments in the international arena.

ACQUISITION

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

The acquisition role of Armscor entails all the actions that need to be taken to satisfy the need for matériel, facilities or services intended for use in or in support of client requirements. This includes long-term operational research, requirement planning, establishment and the management of technology development, design and development of products and systems, and the industrialization and manufacturing of mature products and systems that fully meet the stated user requirements.

Armscor's acquisition role (Acquisition Business Management) can be broadly divided into four categories, namely System Acquisition Management, Procurement Management, Product Systems Management, and Technology Acquisition Management. System Acquisition Management presently represents the bulk of Armscor's acquisition function and involves all the activities

from the translation of mission and related needs into appropriate technical specifications, to the provision of operationally effective, suitable, survivable and supportable products and systems in accordance with the stated requirements of Armscor's clients. Procurement Management entails the procurement of existing commercially-off-the-shelf (COTS) or military-off-the-shelf (MOTS) equipment. Products System Management entails the support provided to Armscor's clients during the operating phase of products and systems and includes the maintenance and logistic support of such products and systems. Technology Acquisition Management entails the contracting for and development of technology in support of future acquisition programmes.

A significant portion of the Programme Management function in Armscor is centred on the acquisition of complex systems and entails the execution of the System Acquisition Management role. Armscor's acquisition involvement traditionally starts with the receipt of an approved User Requirement from its client. From there a formalized 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 formalized 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 providing 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 through Advanced Development and Engineering Development Models up 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 programmes 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 programmes are Integrated Project Teams that comprise members from Armscor and the Department of Defence (DOD) with the responsibility to properly and adequately meet all the programme management requirements of acquisition programmes. Such integrated project teams are led by Armscor Programme Managers and, depending on the extent and complexity of a programme, various domain specialists are attached to the teams to perform specific roles. In order to properly execute their diverse responsibilities, Armscor Programme Managers not only need to be knowledgeable in their specific technical domains, but also need to be proficient in, for instance, the systems and logistics engineering, commercial and legal fields.

In order to properly execute its professional project management responsibility as required by the Armscor Act, it is essential that the proficiency level of Armscor's Programme Managers be maintained and continually updated – in all the required domains. In order to achieve this, specific in-house developed training courses and modules have been developed that are focussed specifically on the competencies required by personnel in the various subdisciplines within the acquisition environment. During the past year, the first of two week-long formal in-house courses on acquisition and project management respectively were presented to programme managers. These mandatory courses for programme managers will serve as refresher courses for experienced personnel and 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 to programme managers specializing in the specific technical domains. In order to improve liaison and interaction with the DOD – Armscor's main client – divisions within the Acquisition Department have

been grouped together to mirror the Acquisition and Procurement structures within the DOD. This grouping as far as possible provides single points of entry to the respective Acquisition and Procurement Directorates and has served to provide significant improvement in communication with the DOD.

The utilization of new technology in the design and development of equipment is important in order to optimize 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 utilization of suitable modern and mature technology, Armscor and the DOD identify and manage a number of technology development programmes in local industry, which are aimed at supporting identified future system development programmes. Armscor Programme Managers, utilizing their specialist knowledge in the various applicable technological domains, have been very successful in identifying technology building blocks that needed to be matured for eventual implementation in planned development projects. The research into and development of identified critical technologies that are subsequently utilized in the development of new products systems have in the past contributed greatly towards providing the SANDF with competitive advantages with respect 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 Programme Managers, and in order to effectively execute this responsibility it is imperative that the programme managers remain technologically up to date in their specific areas of expertise. It is essential, therefore, that the programme managers gain as much exposure as possible to new developments in the international arena.

Although activities under the Strategic Defence Package (SDP) programmes are tapering down, these programmes continue to form a significant part of the acquisition portfolio of Armscor. The period under review saw significant progress on all of the SDP programmes: commissioning of the full complement of the Agusta Westland Super Lynx 300 maritime patrol helicopters, which are now in the process of being integrated with the frigates of the SA Navy; the handover and commissioning on 26 May 2008 of the SAS QUEEN MODJADJI, the last of the three submarines for the SA Navy; and the handover of the first Gripen advanced light fighter aircraft to the SA Air Force. Further highlights on the SDP programme include the acceptance and delivery of the last of the 24 Hawk lead-in fighter trainer aircraft to 85 Combat Flying School at Air Force Base Makhado, and delivery of all but two of the 30 Agusta Westland A109 light utility helicopters to the SA Air Force.

ACQUISITION OBJECTIVES

Armscor is still suffering from a lack of capacity to manage all the current programmes to the depth that is required by the DOD's Acquisition Policy. However, the initiatives of the Armscor Acquisition Department are progressing well to refocus its resources towards adding more technical value in the relevant integrated project teams.

Strict baseline management and more formalized Requirements 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 in terms of exposing project risks and integration issues and has led to the introduction of several measures to strengthen the capability of integrated project teams on ground level.

The first two phases of the Capability Management initiative in the Department are complete. This system now enables Management to gain information on resource loading and allocation to all elements of the business. The next phase to define and generate job descriptions for all employees has commenced and is progressing well.

The updating of the Acquisition Policy and associated Practices has been awarded a high priority, and actions are underway to allocate more resources to this task. The updating of the Project Management, Capital Acquisition and the Source Selection Practices have been identified as the highest priorities and all efforts are directed to completing these practice updates first.

SERVICE LEVEL AGREEMENT WITH THE DOD

In order to ensure that the acquisition function performed for the DOD is executed in a properly structured, transparent and accountable manner, a rolling three-year service level agreement between Armscor and the DOD has been developed, approved and implemented. Quarterly reporting to the DOD takes place in terms of this Service Level Agreement.

The initial Armscor DOD SLA was finalised and signed in November 2006. An organisation-wide initiative has been completed to update this SLA and in particular to incorporate a detailed Business Plan as specified in the original document. The SLA has been submitted to the DOD for its inputs, and is currently being updated to include these inputs and to align it with the organisational restructuring that occurred during the past year.

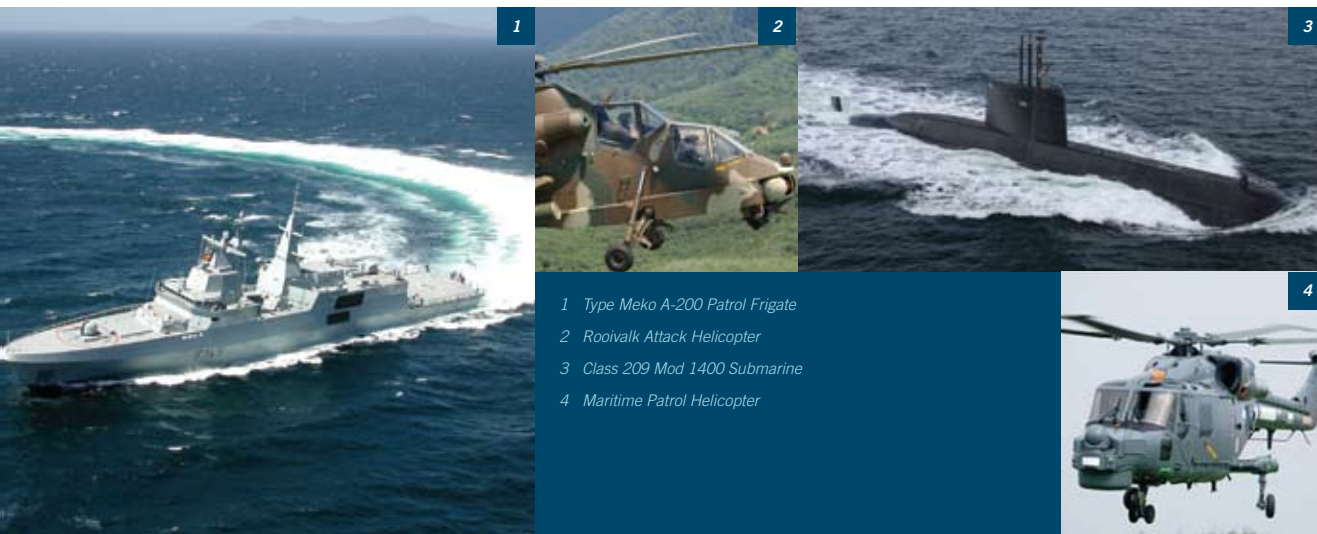
ACQUISITION HIGHLIGHTS

Maritime Systems

Type Meko®A-200 Frigates

This programme entails the acquisition of four Meko® A-200 frigates from the German Frigate Consortium. The frigate hulls complete with propulsion systems were constructed in Germany, after which they sailed to South Africa for fitment of the combat suite by local contractors.

The frigates were all handed over to the SA Navy and commissioned during the previous year, and operational test and evaluation trials are now approaching their final stages with planned completion towards the middle of 2009. The integration trials with the ship-borne Super Lynx Mk 300 maritime patrol helicopters are progressing



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- 1 Type Meko A-200 Patrol Frigate
- 2 Rooivalk Attack Helicopter
- 3 Class 209 Mod 1400 Submarine
- 4 Maritime Patrol Helicopter

satisfactorily, and should also be completed by mid 2009.

A number of engineering changes are presently being executed in order to address a number of identified safety and operational requirements and to meet requirements which were omitted from the original contract because of budget restraints at the time. These will take the project well into 2010.

Class 209 Mod 1400 Submarines

The submarine acquisition programme has progressed exceptionally well and the last of the three submarines, SAS QUEEN MODJADJI, was commissioned in Simon's Town on 26 May 2008. All three submarines are presently undergoing test and evaluation trials in local waters.

Messrs Germanischer Lloyd completed the sea-going inspections for the initial survey of SAS Queen Modjadji, and a classification certificate was issued in this regard. Germanischer Lloyd was impressed with the condition of the submarine and the competency exhibited by the crew members.

Airborne Systems

Rooivalk Attack Helicopter

This programme entails the development and production of 12 Rooivalk combat patrol helicopters by Denel.

- Progress on achieving the Interim Operational Baseline to enable deployment for peace support operations of the Rooivalk is on track, and the aircraft has been released for limited Operational Test and Evaluation.

At the end of the reporting period, four aircraft had been deployed to 16 Squadron, AFB Bloemspruit, for Operational Test and Evaluation (OT&E) purposes. It is anticipated that type certification for the helicopters will be issued by mid July 2009 for fleet modification and retrofit, after which all aircraft will be upgraded to the final status before delivery to 16 Squadron for operational use.

Maritime Patrol Helicopter

This programme entails the acquisition of four Super Lynx 300 maritime patrol helicopters from Agusta Westland in the UK. These helicopters will be used on board the four Meko 200 corvettes of the SA Navy and will supplement the capabilities of the frigates.

All four the maritime patrol helicopters were delivered to South Africa during July 2007, and during the reporting period the programme has been in the process of Operational Test and Evaluation (OT&E) by the SAAF. The Operational Test and Evaluation is being conducted in preparation for Release to Service, which is planned for the last quarter of 2009. OT&E includes the integration of the helicopters with the SA Navy's frigates for embarked naval operations where the SAAF's

Super Lynx helicopters provide an organic aviation capability to the SA Navy's Valour Class FSG Vessel System.

Light Utility Helicopters

This programme entails the acquisition of 30 Agusta A109 light utility helicopters from Agusta Westland in Italy. At the end of the reporting period, twenty-eight of the thirty helicopters ordered had been delivered to the SAAF.

The second reliability monitoring report was published, indicating that the contracted reliability requirements are being exceeded. It is expected that once all reliability improvements already agreed to have been implemented, the reliability requirements will exceed the contracted requirements by a substantial margin.

The retrofit of the first helicopter, bringing it to the final production baseline (excluding the communications upgrade), was completed at the end of the reporting period. The retrofit programme will continue at a rate of two to three helicopters per month, with an expected completion date of March 2010.

Airbus A400M Strategic Heavy-Lift Transport Aircraft

This programme entails the acquisition of eight Airbus A400M strategic heavy-lift aircraft from Airbus Military S.L. (AMSL) as part of a nine nation co-operative programme. Delivery of the South African aircraft is contractually scheduled for the period 2010 to 2012.

The contract with Airbus Military S.L. (AMSL) to participate in the development of the A400M and the delivery of eight aircraft over the period 2010 to 2012 was signed on 28 April 2005. The participating nations are Germany, France, UK, Spain, Turkey, Belgium and Luxembourg, represented by OCCAR as their procurement agency. Both South Africa and Malaysia have subsequently joined as programme partners.

This programme is unfortunately suffering from serious delays and first flight of the aircraft, which was originally scheduled to take place in January 2008, may now only occur during the last quarter of

2009. Progress of this programme is being carefully monitored, and on 1 April 2009 Armscor issued a letter to AMSL reserving its right to terminate. Increased communication between Armscor and OCCAR (the European contracting agency) has been established and all options are being considered together with the DOD and other stakeholders.

Advanced Light Fighter Aircraft

This programme entails the acquisition of 26 SAAB JAS 39 Gripen advanced light fighter aircraft from SAAB in Sweden. The contract originally provided for 28 (9 dual seat and 19 single seat) aircraft, but these have subsequently been reduced to 26 to allow the funds for two aircraft to be utilized for additional functionality and logistics.

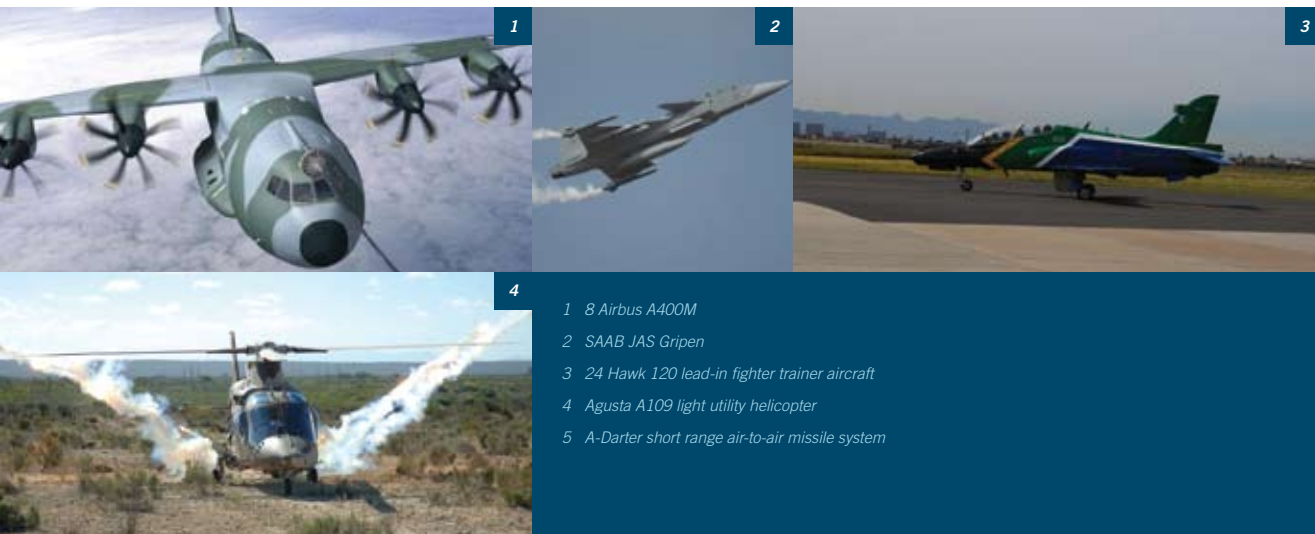
The Gripen commissioning ceremony was held on the opening day of AAD 2008 and was amongst others attended by the Minister of Defence, Chief of South African National Defence Force, Chief of the Air Force, Armscor CEO and members of Armscor's Board of Directors. The Gripen inauguration function was held on 21 November 2008 at Air Force Base Makhado to celebrate the arrival of the Gripen aircraft at the base. The highlight of the ceremony was the Gripen two-ship fly past and air show.

Acceptance of the 7th Gripen dual seater aircraft was completed in Sweden at the end of February 2009, and both the 6th and 7th aircraft were shipped from Sweden on 6 March 2009 with a planned arrival in RSA in the first week of April 2009.

Lead-In Fighter Trainer Aircraft

This programme provides for the acquisition of 24 Hawk 120 lead-in fighter trainer aircraft from BAE Systems in the UK. The LIFT aircraft will primarily be utilized as lead-in trainers during the progression of pilots from their initial flying training on Pilatus Astra trainers to the Gripen ALFA. As part of the DIP programme, all twenty-four aircraft were assembled locally by Denel Aviation.

All 24 aircraft have now been accepted and delivered to 85 Combat Flying School at Air Force Base Makhado. The simulated radar functionality, with eight aircraft on the airborne network, was



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- 1 8 Airbus A400M
- 2 SAAB JAS Gripen
- 3 24 Hawk 120 lead-in fighter trainer aircraft
- 4 Agusta A109 light utility helicopter
- 5 A-Darter short range air-to-air missile system

successfully tested at AFB Makhado with a ninth aircraft joining the group for a fly past over the base.

New Generation Short Range Air-to-Air Missile

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

The development programme is progressing exceptionally well, and towards the latter part of the reporting period the development focus had shifted to testing and evaluating of the missile subsystems. Following the successful launch of a ballistic missile in November 2008, three ground launched pre-programmed missiles were launched in February and March 2009 to evaluate missile airframe characteristics and controllability. The tests were extremely successful, in the sense that the missiles performed very close to the flight paths predicted by simulation. In parallel the missile's seeker was evaluated in carriage trials utilising an instrumented pod. The seeker performed better than expected for this early phase of development. The successful flight tests have also contributed to the successful completion of the Preliminary Design Review (PDR) of the missile front section.

The co-operation between the Brazilian Air Force and the South African Air Force was further strengthened by the joint acceptance and approval by the two air force's certification authorities of the programme's certification baseline and qualification plan.

Landward Systems

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

This programme entails the development of the Local Warning Segment (LWS) (Phase 1) of the Ground Based Air Defence System (GBADS) for the SA Army Air Defence Corps.

The programme is executed over 30 contractual milestones and was initially signified by serious delays, resulting in a total programme slip of 47 months. Increased focus on the programme by all levels of management in both Armscor and Denel has resulted in a significant improvement in adherence to latest indicated timescales, and at the end of the reporting period 26 of the 30 contractual milestones had been completed.

Development activities have essentially been completed and the programme is now focused on the Local Warning segment (LWS) integration activities towards a fully functional and deployable User System, which will culminate in a functional Operational Test and Evaluation (OT&E) which is planned for October 2009. The functional integration and demonstration of the Mobile Head Quarters, Battery Fire Control Post, Short Range Local Warning Radar Section and the Missile Fire Unit physical elements were completed successfully and are now ready for the integration of the Air Defence Control, Tactical Command and Control and Communications software suites.

The functional integration of these software suites is currently being finalised in the Integration Test Bench (ITB) and is expected to be completed by end April 2009.

New-Generation Infantry Combat Vehicle

This project provides for a complete New Generation Infantry Combat Vehicle Products System (NGICV-PS) to replace the Ratel infantry combat vehicle that has been in service since 1976. The project essentially comprises five combat variants, including their logistic support and ammunition. The vehicle platforms are initially sourced from Patria Land and Armament in Finland, while turrets and weapon systems are locally developed by Denel Land Systems (DLS) as the prime contractor.

Both the local and foreign components of the programme are progressing well. Manufacturing of the five Engineering Development Model (EDM) platforms (common configuration) by Patria in Finland was completed on 24 February 2009. The first two platforms arrived in South Africa on 19 February 2009 and delivery of the latter three platforms will be completed in September 2009 after completion of the Health and Usage Monitoring System (HUMS) and Navigation System integration. Mobility tests by Patria were successfully performed at Gerotek during March 2009.

The Allocated Baseline (ABL) of the locally developed 30 mm Camgun was accepted in March 2009, and the development of the 30 mm TP, SAPHEI and AP ammunition by Denel PMP is progressing well and performance objectives should be achieved.

A delay of approximately 8 to 12 months is expected in the project timescales, due to obsolescence on the missile system, technical problems with Camgun 30, communication system definition and architecture design problems and the workload at the contractor.

System safety is a high priority on this project and good progress is made towards the mitigation of identified safety hazards and risks.

This is a continuous process with checks and balances upon completion of each of the different project baselines.

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, whilst incorporating semi real time data link performance characteristics as well as digital voice communication. Backwards compatibility to existing systems will be possible, utilizing an advanced management system.

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

The communication system will consist of seven subsystems, which will be contracted separately. During the reporting period, the development and industrialization phases of the two major subsystems, the HF (high frequency) radio system and the V/ UHF (very/ultra high frequency) radio system, have been contracted. The Allocated Baselines (ABL) for both systems have been successfully completed and full-scale development can now continue. The Development/Industrialization is planned to be 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.

Defence Industrial Participation (DIP) is an integral part of the DOD policy framework for the retention and development of the South African Defence Industry, which is regarded as a nationally strategic and economic asset.



1 Ground Based Air Defence System (GBADS) for the SA Army
2 New Generation Tactical Communication System

DIP contributes significantly to the retention of self-sufficiency in key areas, the establishment of life cycle support of sophisticated equipment, the earning of foreign exchange through exports, the creation of domestic employment, and the development of defence technology.

Where the State 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.

Armcor manages the following portfolios under the DIP programme:

- Strategic Defence Packages (SDPs) Portfolio, which addresses the DIP obligation resulting from the acquisition of Strategic Defence Packages signed in 1999.
- Active Portfolio, which addresses the DIP obligations resulting from all new procurements by the Department of Defence with an imported content equal to or higher than USD 2-million.
- Pro-active Portfolio, which addresses all the pre-emptive agreements with foreign companies, whereby credits are banked in anticipation of future defence purchases by the South African Government.

- Police Contracts Portfolio, which addresses DIP obligations resulting from all Police Service procurements directed through Armcor.

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

Approximately 30 BEE (Black Economic Empowerment) companies have benefited from the DIP programme thus far and are at different stages of becoming part of international supply chains. Included in the overall DIP performance to date are DIP credits to the value of ±R240 million awarded for contracts placed with some of these BEE companies, of which R35 million was discharged during the year.

Highlights of some of the DIP activities credited during the period under review:

This eventually resulted in the decision to separate the MBDA portion from the TNF portion of the

The status of the four DIP portfolios on 31 March 2009 was 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	7	4	15 111	652	13 158
Active (SDA)	13	19	5 550	92	5 289
Police Contracts	2	1	118	17	98
Pro-Active	25	8	-	321	902
TOTAL			20 779	1 082	19 447

DIP Status of the Strategic Defence Packages on 31 March 2009:

Project	Obligation Rm	Planned performance Rm	Actual performance Rm	Actual vs planned %	Actual vs obligation %	Sales (local and exports) Rm	Technology Transfer Rm	Investments Rm
Corvettes	2 941	2 460	2 169	88	74	1 623	521	25
Submarines	1 121	1 121	1 239	111	111	867	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	4 056	4 012	99	79	2 022	1 817	173
Maritime Helicopters	553	374	292	78	53	258	31	3
Total	15 111	13 457	13 158	98	87	8 707	4 193	258

Frigates

The Frigate DIP obligation is divided into two programmes. The German Frigate Consortium (GFC) is responsible for the Platform obligation and Thales Naval France (TNF) for the Combat Suite.

The GFC has now successfully completed its obligation, which realised a benefit of R564 million to the local defence related industry over a period of approximately nine years.

Although TNF was contractually responsible for discharging the Combat Suite obligation, a portion of it was to be discharged by Matra BAE Dynamics Alenia (MBDA) as the supplier of the missile systems. MBDA's record of non-performance led to the risk that the penalty would simply be paid, which would relieve TNF/MBDA of the obligation but to the detriment of industry. However, instead of accepting penalty payment, Armscor continuously strove to find a beneficial solution.

obligation and to conclude a new DIP agreement with MBDA to the value of R949 million. The new agreement becomes effective on 1 April 2009 and potential benefit areas are the Armscor Dockyard and Denel. The remaining TNF portion of R1,427 million has been discharged successfully.

Submarines

With the delivery of the last technology transfer activities in February 2009, the submarine obligation was fully discharged. The technology transfer enables the local company, Cybicom Atlas Defence (CAD), to provide strategically essential services for the life cycle support of the submarine combat suite. This significantly reduces the SA Navy's dependency on the foreign OEM for further support of the submarines and also provides CAD with the capabilities to become part of other international acquisition programmes.

Maritime Helicopters

The majority of the activities under this obligation will only be completed and therefore be claimed in

the last 18 months of the programme, which ends in September 2010.

Apart from core business activities, i.e. the provision of certain Super Lynx onboard systems, Agusta Westland continues to support non-core business at companies such as Canvas and Tent and Barloworld Optimus.

Gripen Aircraft

The lack of additional Gripen sales to other countries by SAAB has impacted significantly on the proposed plans for the involvement of local companies in aerospace work. This has slowed down SAAB's progress in discharging its obligation, but it still has until 2011 to do so. SAAB is however already actively pursuing other viable opportunities to benefit the local industry, which would discharge the obligation by the contractual due date of 2011.

Active Portfolio

Although overshadowed by the DIP relating to the SDPs in size and magnitude, DIP relating to the normal Special Defence Account (SDA) acquisition continuous to provide significant benefit to the local Defence Industry. Together with acquisition managed on behalf of the SAPS, a variety of programmes – such as Cytoon, GBADS, Hoefyster, Kingfisher and Klooster – have delivered R5,387 million benefit to date and R109 million in the last year alone.

QUALITY & IT

External Customer Satisfaction Survey

As a customer oriented organisation, the client's views of the service we render is important to Armscor. Regular client satisfaction surveys are conducted. The 2008/2009 external client satisfaction survey showed that Armscor has improved from a rating of 81,83% in 2004 and 89,74% in 2006 to 94,52% in 2008.

Industry Quality Audits and support

Working in a defence environment means that the credibility of our suppliers is important. Every new company that intends to do business with Armscor has to register as a supplier. For the year under review, registration audits were carried out on 326 new suppliers to ensure that they are compliant

with Armscor's requirements before orders can be placed with them.

The audit process is also done on companies that are already on the database. For the year under review, 172 of these companies' contractors were audited and the average performance was 90% against a performance target of 85%.

Quality Representatives of Armscor offer business support to contractors by educating them on all activities relating to specification and requirements documentation, configuration control and inspection/ verification techniques and methods. This also includes Black Economic Empowerment contractors and those contractors that have experienced high staff turnover.

Safety Health and Environment

Comprehensive Safety, Health and Environmental audits were performed in the Armscor Business environment were performed and follow-up audits were conducted during the period July to December at Alkantpan, Gerotek, Protechnik, Hazmat, Ergotek, and the Dockyard.

All facilities showed significant improvement:

- Alkantpan from 78% to 85%.
- Protechnik, Hazmat and Ergotek from 51,2% to 79,44%.
- Gerotek from 62% to 77%.
- Dockyard from 25% to 52,37%.

The targets for all of the above was 100%

Hazard Identification and Risk Assessments (HIRA) have been completed for Alkantpan, Protechnik and the Naval Dockyard. Corrective action plans have been developed for all areas audited.

A project was developed, and approved, for the re-evaluation of the emergency preparedness plan for Armscor and the DOD. A successful emergency evacuation exercise was conducted on 5 December 2008. Lessons learnt will be implemented and an unprepared exercise will be conducted during 2009.

Broad Based Black Economic Empowerment (BBBEE)

The highlight was the implementation of the BBBEE Codes of Good Practice with effect from 1 September 2008. The BBBEE Codes of Good Practice focus on seven elements, namely Ownership, Management Control, Employment Equity, Skills Development, Preferential Procurement, Enterprise Development, and Socio-Economic Development, whereas the narrow-based BEE focused on one element only, namely Ownership. The table below depicts actual BEE spending against targets set.

BEE Spending

Operating budget	Total expenditure	Target	Actual
Percentage	100%	50%	66,57%
Amount	R37 951 710	R18 975 855	R25 266 188
Acquisition	Total expenditure	Target	Actual
Percentage	100%	25%	27,57%
Amount	R1 418 400 112	R354 600 028	R391 004 439
Armstrong Business	Total expenditure	Target	Actual
Percentage	100%	40%	34,46%
Amount	R79 270 917	R31 708 367	R27 243 780

* Note: This is the net figure after excluding Strategic Defence programmes, Lynx, A400M, parastatals and multi-national companies.

ISO 9001: 2000 Certification

A revised version of the three-year audit plan was created following consultations with each of the Armscor departments to determine critical processes.

In order to ensure good corporate governance, six internal audits were conducted during the financial year in accordance with the three-year audit plan, with no major findings reported. Two of the audits were conducted in the Finance and Infrastructure Department and one each in the Quality Assurance Division, the Board Secretariat and Legal Services Division, Acquisition Department and Human Resources Department. A report in this regard was presented to the Management Board.

Two audits were conducted by the South African Bureau of Standards (SABS). No findings were reported and Armscor's certification status as an ISO 9001:2000 service provider was retained for the sixth successive year.

Currently an effort is underway to facilitate transition to the new ISO 9001:2008 standard.

DEFENCE INDUSTRY SUPPORT STRATEGY

The Department of Defence (DOD) has embarked on an exciting new initiative, which will result in an Integrated Defence Industry Support Concept. To this end Armscor was tasked by the DOD to formulate a Defence Industry Support (DIS) strategy based primarily on three pillars:

- Development and maintenance of Strategic Defence Industry Capabilities as an extension of the SANDF capability;
- Promotion and driving of economic transformation within the SADRI through BBBEE, NIP/DIP and Supplier Development Programmes (SDP's) interventions;
- Promotion and support of SADRI exports through the provision of effective "Industry Ambassadorship" using such mechanisms as international bi-laterals, UN Mission, and/or AU mission participation.

To this effect Armscor has organised various workshops between representatives from the DOD, Armscor, the State Departments of Trade and Industry and of Public Enterprises, the Gauteng Government and AMD. The DIS project team has been selected and been divided into the three focal areas. This initiative was communicated at AAD 2008 and at the Industry Day in February 2009.

DEFENCE EQUIPMENT AND PERSONNEL SUPPORT

Defence Equipment and Personnel Support (DEPS) processed forty-six (46) Marketing and Material Aid requests from industry. This included the finalization of the testing of the Gripen fighter aircraft. DEPS was also able to transfer back R2 214 751,27 into the DOD's B7 account.

AB LOGISTICS

AB Logistics Freight renders logistic services in support of Armscor's strategic acquisition function, and for the SANDF and the South African defence-related industry. AB Logistics Freight is a registered and accredited customs clearing agent with the South African Revenue Service (SARS), and is a member of the International Air Traffic Association (IATA), the Internal Federation of Freight Forwarders Associations (FIATA) and the South African Association of Freight Forwarders (SAAFF). The registration of AB Logistics as a "Regulated Agent" with the Civil Aviation Authority is in process and should be completed by 1 July 2009.

AB Logistics Freight is responsible for various logistic services, such as packaging, freight forwarding, chartering, road haul transportation, customs and shipping formalities, and information and data capturing to comply with the Armaments Compliance requirements during the importation and exportation processes. All these services are vital to the Armscor acquisition process, the SANDF and the defence-related industry, and – in view of the nature of the commodities handled – vital in terms of the Armaments Compliance requirements.

An internal process was developed to offer to Armscor and our external stakeholders a system that controls the import and export equipment by linking the items per description, part and serial numbers, in order to ease the temporary type of shipments and to provide the details of such shipments to SARS: Customs.

AB Logistics Freight has, through its capabilities, also extended its specialised services to other Government departments and to foreign defence forces.

South Africa's international acceptance has resulted in joint exercises held between the SANDF and foreign defence forces, with AB Logistics rendering the logistical support required by the visitors for the freight forwarding of their military equipment. During the year under review AB Logistics rendered logistical support for several such joint military exercises. The foreign defence forces had indicated their preference to task a logistical service provider

that is part of the Department of Defence and, based on the high standard of service rendered by AB Logistics in the past, this has resulted in these logistical support services being contracted for the next two years by the foreign defence forces.

In terms of the Explosives Act, Act No 26 of 1956 and the Firearms Control Act, Act No 60 of 2000, AB Logistics Freight has maintained its registration as a registered transporter of hazardous cargo, weapons and ammunition, offering this specialised service to the SANDF, Armscor, foreign defence forces and the defence-related industry, and escalation has been experienced in the requirement from foreign clients and shipping lines to assist them with the transit of shipments of such controlled items through South Africa.

Based on the diversified activities and the experience vested within AB Logistics, integrated logistics services are offered, such as packing, stuffing, lashing, customs clearing of air and sea freight shipments, and chartering of ships and aircraft. AB Logistics Freight provides transit warehousing facilities, marine insurance, customs tariff consultancy, computerized clearances linked with the SARS electronic data interchange system, costing facilities, and a "Removal in Bond" cartage service.

AB Logistics has contributed substantially to Armscor's BEE Strategy in terms of expenditure and the transformation process.

The shipment of military commodities and explosives has become more complex due to limited shipping opportunities. Although sea piracy was taken into account during shipments, it is foreseen that the recent increase in sea pirate activities will have an impact on the future shipments of military and military-related cargo. AB Logistics is constantly exploring new shipping routes at cost-effective rates.

AB Logistics is currently playing an important role in the shipping and customs clearance process of the Strategic Defence Packages equipment. The special customs and excise manufacturing warehouse facility is in full operation and handles all the required extensive administration processes

to ensure that all the customs rules and formalities are complied with. A total of 28 LUH A109 helicopters, 24 HAWK aircraft and 7 Gripen Fighter aircraft were customs cleared.

Through this special customs and excise manufacturing warehouse facility it has been possible to effect a substantial saving on import-related costs. AB Logistics has developed a computerised system for capturing the data of the items imported and exported through this warehouse facility, offering reconciliation reports per the different projects in order to comply with Customs requirements. Some of the deliveries are scheduled to be finalised in 2009 and their reconciliation reports are being prepared with a view to closure of the projects 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 Armscor, Armscor contractors and the DOD with all their defence and project-related travel arrangements. This is done through the offices at Thaba Tswane, Simon's Town and Armscor head office.

AB Logistics Travel offers a diversified range of travel arrangement support, including air travel, land travel, car rental, accommodation, and other related services.

EXHIBITIONS AND EVENTS

Armscor, with the support of the Department of Trade and Industry (DTI), facilitated the participation of the defence-related industry at the following exhibitions: DSA 2008 in Malaysia, Eurosatory 2008 in France, Milipol Qatar 2008, IDEAS 2008 in Pakistan and IDEX 2009 in United Arab Emirates. Armscor also hosted the Africa Aerospace and Defence Exhibition 2008 in Cape Town in conjunction with the AMD, CAASA and DOD partnership.

These exhibitions provided a platform for the South African defence-related industry to showcase its capabilities and to encourage exports.

DEFENCE MATERIEL DISPOSAL

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

The sale of the defence matériel 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.

DMD's sales turnover has reduced due to the reduction of high value disposals.

DMD continued to successfully manage defence matériel warehouses at the following locations: DMD Naval Depot in Wingfield, DMD Air Force Depot in Thaba Tshwane, DMD Main Ordnance Depot in Tshwane, DMD MOD Centre Bloemfontein and the DMD Army Depot at Wallmansthal.

DMD has, in support of the DOD, established an eNaTIS (National Traffic Information System) registration office in the Armscor building that is linked via TASIMA Pty Ltd (the company responsible for eNaTIS) to the eNaTIS vehicle registration system of the Department of Transport.

ARMSCOR DEFENCE ASSET MANAGEMENT CENTRE

Armscor Defence Asset Management Centre (ADAC), previously part of Armscor Business, is now a division of the newly established Logistics & Matériel Support Department in Armscor. ADAC provides logistic support to the DOD, Armscor, the Defence Industry and to certain statutory organisations in the following areas:

- Intellectual Property
- Disposal of assets
- Stock control
- Digitising
- Ammunition marking

All these services are written in the Service Level Agreement between Armscor and the DOD.

Ammunition marking

The Ammunition Policy has been changed from a British/RSA System to a NATO Marking System and the process includes updating of Marking Manuals, Unit Load Specifications and training material. ADAC is working together with a company called Sigma Logistics Solutions in an effort to update the DOD Ammunition documentation.

Stock control

ADAC manages armoured vehicles, weapons and other vehicle components through the CALMIS (Computer Aided Logistic Management Information System) system. The verification officer uses the CALMIS information to verify the physical existence of vehicle components at various Army depots, including those of contractors.

This system has been found to be helpful in terms of information update and keeping track of the movement history of army vehicles.

Acquisition project asset and accounting management service

ADAC manages all DOD Special Defence Account (SDA) assets. The DOD – SDA and Armscor acquisition project assets are accounted for in Armscor's Central Asset Register. Asset and stock management reporting to Armscor Management and the DOD takes place bi-annually.

Asset stock and equipment disposal service

The DOD has authorized Armscor, and more specifically the Armscor Control Office of ADAC, to dispose of redundant and obsolete DOD – Special Defence Account and acquisition project assets and stock. The process entails the identification, verification and disposal of assets and stock at Armscor contractors. The execution of decisions of Materiel Review Boards and Disposal Boards also forms part of the process.

DOCKYARD

The 2008/09 reporting period has been a challenging yet exciting one. This has been the first year of

the Dockyard under the management of Armscor with both successes and challenges. The key highlights of the year include successful execution of a number of SA Navy Projects by the Dockyard, undertaking of Commercial Projects for the first time, establishment of a Recognition Agreement with organised labour, great improvements on Safety, Health and Environment, and achieving excellent external client audit feedback.

Projects

The year commenced with work and completion of the long standing refit on one of the SA Navy's fast attack vessels, the SAS UMZIMKHULU, which was in the hands of the Dockyard since 2005. A number of projects on other vessels, ranging from the frigates, submarines, tugs and small craft, were successfully executed. This covered both the planned and unplanned projects.

The Dockyard has just started a major 'half-life' refit on the replenishment vessel, SAS DRAKENBERG, the first major SA Naval project the Dockyard has undertaken in a number of years. As part of its transformation initiatives Dockyard has changed its management approach to SA Navy projects by adopting a collaborative and joint project team concept, and this has already reaped rewards with improved turnaround times on projects. This new approach, together with a newly created combined Project Planning Office, is expected to bring about even greater improvements in the management of future SA Navy Projects. The SAS DRAKENSBURG project is scheduled for completion early in 2010.

Facilities consolidation

One of the legacies of the takeover of the Dockyard was the takeover of an organisation with operations spread over the entire Dockyard area, and in some instances resulting in greater operational inefficiencies. A number of functions have been consolidated into areas deemed more efficient in the execution of their daily activities. This has been achieved both in the departmental and the administrative functions. The process is scheduled for finalisation in the 2009/10 reporting period.

COMMERCIAL

Projects

During the past year the Dockyard has been involved in a number of commercial projects, the most notable being extensive maintenance work that was undertaken on the British Royal Navy Ice Patrol Vessel HMS ENDURANCE. The vessel spent six weeks in Simon's Town and the project was completed on time and within budget. The client was exceptionally pleased with the service and standard of workmanship.

Another significant project was the repairs to structural damage sustained to two foreign warships (Uruguayan) while exercising off the South African coast. This project proved that the Dockyard has the capability to undertake complex repairs at short notice. A number of other commercial projects were undertaken during the course of the year, which included 25 commercial dry-dockings in Simon's Town and 21 commercial dockings in Durban.

Memorandum of Understanding

MBDA, a missile development organisation, has in terms of the Strategic Defence Packages a Defence Industrial Participation offset obligation to Armscor. MBDA has identified the Naval Dockyard Simon's Town as a possible opportunity for it to discharge its obligation by rendering services to the Dockyard with their strategic partners.

In this regard a Memorandum of Understanding (MOU) between Armscor and MBDA was entered into on 18 September 2008. The MOU will focus on a detailed analysis (Due Diligence) of the Dockyard, undertake a skills audit, identify the necessary legislative requirements, develop a detailed business case and associated business plan should the business case dictate and define the required partnership arrangement. It is envisaged that this exercise would be completed during the next reporting period.

Recognition Agreement

The Dockyard successfully entered into a Recognition Agreement with the Dockyard Trade Unions. The final agreement was signed by the majority Union, namely the National, Education and Allied Workers Union (NEHAWU) on 18 November 2008.

This will allow for the normalisation of conditions and employment benefits.

Training

The Dockyard is in the process of consolidating all its training facilities into a single Training Academy. Work on this project is progressing well and the first intake of apprentices is planned for May 2009.

Customer satisfaction

An external Customer Satisfaction audit was undertaken during the period under review and the Dockyard achieved 96% against a target of 60%, which was excellent client satisfaction feedback and extremely encouraging.

Safety target

The safety target was set at 60% and 52% was achieved.

Strategic objectives

The 2009/10 period is seen as the critical reorganization phase, where a number of activities will be undertaken to continue with the establishment of an efficient, effective and economically viable operation. These activities include the development of a Business Strategy, Facilities and Asset Transfer Plan, the rollout of the Reorganisation Plan and Corporatisation of the Dockyard. The reorganisation plan includes development of the organisation structure, staff and management appointments.

ARMSCOR BUSINESS (PTY) LIMITED

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

It must also maintain such special capabilities and facilities that are regarded by Armscor not to be commercially viable but that 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 and technical capability to the Department of Defence and Armscor.

Armcor Business exploits such commercial opportunities as may arise out of Armcor's duty to acquire defence matériel or to manage technology projects.

GEROTEK TEST FACILITIES

The main purpose of Gerotek Test Facilities is to support Armcor and the Department of Defence in the acquisition process by providing specialised services. The secondary purpose is to render services to the local and international commercial sectors through the various divisions. Gerotek Testing Services provides accredited testing services to verify whether components, products and / or systems conform to set quality standards and specifications. Gerotek Events provides a marketplace environment in which these products and services can be introduced, while Gerotek Training provides accredited driver training services to ensure that vehicles are utilised in an appropriate and safe manner.

For the year under review the following accreditations were maintained:

- Gerotek Testing Services: ISO/IEC17025;
- Gerotek Training: Transport Education Training Authority (TETA);
- SABS/SASETA/POLICE accredited small firearms training facility.

As part of the capital upgrade of Gerotek's abilities, a new electro-magnetic-compatible (EMC) test receiver was procured. This EMC receiver affords Gerotek the capability to comply with the latest International Special Committee on Radio Interference (CISPR) emission test standards. Compared to the previous generation equipment, the EMC measurement frequency band has improved significantly to 18 GHz, while test duration has decreased by approximately 80%. The installation of an upgraded standby power supply at the Sidibane conference venue to counter the negative effects of power failures, contributes to better service delivery.

Capital investment was also executed in the maintenance of test facilities, test tracks and access roads.

Services were provided for the Combined Vehicle Electric Drive (CVED) project. Various military antennas were evaluated by the Paardefontein Antenna Test Range. An increase in international sales influenced the financial results. The most prominent clients were Terex, Bell Equipment, Tata, Mahindra, Mercedes Benz, BMW, Renault and BAE Systems.

The annual Car of The Year (COTY) competition evaluation process took place at Gerotek, whilst major launches and ride-and-drives have also been hosted. Training has been conducted for, amongst others, Anglo Coal in Botswana, BHP Billiton, and SARS. The motor, truck and bus industries have made extensive use of Gerotek Training for driver training skills.

Keeping abreast with changing test and measurement requirements and technologies presents challenges. The effect of the global slowdown in the economy and especially in the automotive industry is expected to impact on Gerotek.

Over the past year Gerotek experienced an increase in hijacking on its access road, as well as burglaries. The escalation of this type of crime necessitates the upgrade of security measures and services, with associated costs.

ALKANTPAN TEST RANGE

Alkantpan's vision is to be the ultimate choice for ballistic and other munitions testing. For the past 21 years of its existence, Alkantpan Test Range has endeavoured to offer excellent service to its clients. The Test Range is an ISO 9001 accredited facility. New test techniques, capital equipment acquisitions, and investment in personnel and infrastructure contributed to increased productivity and a high standard of service delivery on weapon and ammunition tests. The RSA Armaments Industry, which includes Rheinmetall Denel, Denel Land Systems, PMP, Fuchs, Denel Dynamics and SAAB Avionics, as well as units within the Department of Defence, benefited from these new developments. Various depot tests, ranging from 40 mm grenades up to 155 mm shells and fuses, were

executed for the Department of Defence during the financial year.

The Singapore weapon and ammunition industry is still the major foreign client, contributing extensively to the upkeep of this facility.

Old standard test equipment was replaced as follows:

- High-speed video imaging replaced old technology high-speed photography cameras. This in-time imaging makes it possible to take test decisions on the spot, without delay. In the past various high-speed film cameras had to be used simultaneously when determining the speed of fragments during static detonation tests.

Only one high-speed video camera is now required, at a fraction of the operating cost of the film cameras.

- Alkantpan is nearing completion of a system with which data from theodolites is electronically transferred to a data-capture program and processed without human intervention. This will greatly enhance the reliability of data as well as the effectiveness of the data-capturing system, offering in-time results to clients. The total control and transfer of data from other measuring systems will also be possible.
- Previous arena tests, where a projectile is detonated and the fragments captured, required a huge amount of test preparation and construction of the arena. The time to recover the fragments from previous capture equipment was time consuming and very expensive. A new type of capture method was developed and tested, resulting in huge time and cost advantages for the client and associated efficiency improvement.

Alkantpan test range initiated a process to manage the rehabilitation of areas that might be affected by the testing activities taking place at the site. Day to day cleaning operations and the environmental and conservation goals as monitored by the joint Steering Committee of Alkantpan and the Department of Tourism, Environment and Conservation of the

Northern Cape secure the legislative and ecological compliance.

ARMOUR DEVELOPMENT

Continued research and development was done to maintain and advance armour protection technologies and to establish industrial capability to satisfy armour protection requirements over the entire threat spectrum in a cost-effective manner. The service includes analysis of the customer protection needs, development of armour, testing and qualification, vehicle hull structural and ballistic design, as well as specification of bonding or welding. There is extensive experience in retrofitting armour packages on main battle tanks and light armoured vehicles.

Achievements for the period under review include the completion of research work on passive and reactive armours, as contracted with the Technology Development Board; new explosive formulations for reactive armours were developed and testing is in progress; work on protection against rocket-propelled grenades yielded good results and is continuing; development of the combat armour suite for the New Generation Mechanized Infantry Combat Vehicle was completed. Some minor modifications are being made to reduce costs, and environmental testing is in progress.

Good results have been obtained with protection measures against fragments of artillery shells and improvised explosive devices. A non-disclosure agreement is in place with CSIR-DPPS. Closer co-operation and pooling of resources and facilities will be of benefit to both parties.

The world slump in steel demand has not influenced the suppliers of armour steel. The problems of short-supply, high prices and long lead-time remain. The Science 1 and 2 (Passive and Reactive) armour development programmes continue. This will occupy most of the division's available man-hours.

Project Hoefyster: The armour development for this vehicle is approaching production phase, which will require a lot of effort from the Division.

DEFENCE INSTITUTE

Defence Institute supplies defence analysis, decision support, operational research and capability analysis to defence practitioners in the Department of Defence, focusing on the higher system levels (level 5+) over the total life cycle of defence capabilities. The Division comprises a team of scientists, engineers and operational specialists that render a broad range of services as described below.

The scope of services provided includes Policy Analysis; War & Conflict Studies; Environmental Analysis; Defence Capability Analysis; Weapon System Analysis; Operational Analysis; Process Development & Support; Product System Management Support to the military personnel who are responsible for the management of level 5 Product Systems currently in operational use, and Integrated Logistic Support Management Services (ILSMS) which is the provision of comprehensive and integrative mechanisms and enablers for Integrated Logistic Staff Support to the SA Army to direct, control and coordinate the execution of cost-effective logistic/system management.

The services described are delivered by a Centre of Excellence, benchmarked against international norms and practices, applying multi- and interdisciplinary methodologies with a joint and integrated Defence focus. Defence Institute provides an environment of continuous source of knowledge and skills for the client.

The main challenges experienced in Defence Institute are the sustainability of capabilities with regard to attraction and retention of required resources, rejuvenation of the workforce, funding of the required capabilities. Defence Institute appointed several engineers, scientists and technical resources in order to restore the required capability during the past year.

ERGONOMICS TECHNOLOGIES (ERGOTECH)

Ergotech provides a comprehensive service in ergonomics (human factors) to the Department of Defence. This is done in order to satisfy its requirement for a Structured Ergonomics Programme, ensuring the effective and efficient

integration of ergonomics within all defence systems. During the financial year the services included military ergonomics research in the areas of soldier perception, anthropometry (human body size), soldier functional and physiological performance; specification and design of human-machine systems; the evaluation of environmental stressors (such as vibration, humidity, temperature and noise); human-machine systems and specialised health and safety investigations that are unique to our soldiers and the environments in which they have to operate.

Ergotech is responsible for the generation and maintenance of the soldier characteristics databases for the SANDF. The data are critical for the successful integration of ergonomics into soldier equipment and systems within the context of the operating environment.

The division's main objective and achievement during the past year was to provide an efficient high-quality ergonomics service to the Department of Defence. All the contracted outcomes were delivered on time.

Quality also received the necessary attention and Ergotech retained its ISO 9001:2000 certification.

To enable a focused approach to the research effort within Ergotech, each research project was grouped into one of nine domains. The domains included: anthropometry, biomechanics, human physiology, cognitive ergonomics, human performance, technology and capability maintenance, research equipment, design and specification support, and test and evaluation support. Domain specialists were allocated to lead the research within the groupings.

During the financial year under review a number of objectives were achieved. Within the anthropometry domain the anthropometric database of the SANDF was kept current with the addition of a targeted sample to increase the SA Navy representivity of the database population. This will improve the accuracy of future ergonomics specifications and the design applicability to the SANDF population.

The biomechanical modelling effort produced valuable data on the effect of helmet configuration

and composition characteristics on the human neck's ability to safely carry the distributed mass effectively. Progress was made with the manual handling human model that is representative of the SANDF soldier. This work supports the accuracy of estimates made in the acquisition decision-making process pertaining to ergonomics.

Ergotech was involved in providing ergonomics inputs to various acquisition projects that Armscor is responsible for. Ergotech was responsible for the ergonomics specialist effort on an infantry fighting vehicle programme, an operational supply support transporter programme, and test work on a series of products and systems.

In addition to these efforts, Ergotech performed health and safety related work for the SA Military Health Service. This work focused primarily on the shock loading experienced by the lower extremities when participants were wearing military boots. The results of this work will be taken into consideration in future footwear purchases of the SANDF. The health related evaluation capability at Ergotech has been enhanced by the acquisition of a hand-arm vibration monitor, a field deployable oxyspirometer and a whole body scanner.

FLAMENGRO

Flamengro is a strategic capability for the Department of Defence; it is mandated to provide a computer based simulation and failure analysis support and consultative service to Acquisition 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 Technology Development Board. The work to achieve these objectives is jointly funded by the Technology Development Board and funds from the Service Level Agreement.

Flamengro will maintain a minimum sustainable capability in computer aided engineering (CAE) software and hardware, with specific emphasis on ballistics simulation, modelling and analysis and verification experiments. This will be done in order to provide scientific and engineering support to the SANDF, as well as to the defence industry on the

design, development and operational use of artillery systems.

This type of work typically includes:

- Static and dynamic structural analysis, by Finite Element Method (FEM);
- Fluid dynamic analysis, including fluid flow and heat transfer, by means of Computational Fluid Dynamic (CFD) codes;
- Internal, external and terminal ballistic analysis;
- Short time duration and large deformation analysis;
- Stress analysis;
- Resonance analysis.

Current projects are Internal Ballistic Simulation Capability, Weapon Launch Response, Ignition Chain Systems Technology, 155 mm ProRam, and the SAAF Test facility evaluation.

Challenges experienced during the past year were to appoint engineers who have the interest and ability to add value in this environment.

HAZMAT PROTECTIVE SYSTEMS

Hazmat Protective Systems manufactures and markets a comprehensive range of filter cartridges, canisters and half-mask respirators to protect the individual and soldier against the majority of respiratory health hazards. Hazmat also manufactures impregnated activated carbon, which is used in a range of cartridges, canisters and large 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 manufacture of filters for individual or collective protection are not readily obtainable and are tightly controlled.

Hazmat works closely together with Protechnik Laboratories to ensure that it has an active Research and Development back-up to maintain the capabilities identified as strategic by the SANDF and the development of new products. Canisters, cartridges and half-masks are manufactured to benefit the workforce of companies in the mining,



- 1 Canister production line
- 2 Carbon impregnation plant
- 3 Examples of canisters made by Hazmat
- 4 Full face mask used to protect persons working in chemically hazardous environments

industrial, agricultural and private sectors of society.

Hazmat's manufacturing process has been certified to ISO 9001:2000 by TÜV Rheinland since 1994, and all respiratory products are approved (homologated) by the SABS, or comply with the applicable military standard. Hazmat is currently the only local manufacturer of canisters and chemical and biological filters in the RSA. In the year under review filter canisters were manufactured for the SANDF and Correctional Services. Hazmat managed to win the State Tender to supply filter canisters to the ambulance, rescue and emergency services personnel for the period 1 March 2009 to February 2011.

The period under review was a challenge for Hazmat as the economy and the sectors in which Hazmat is active (automotive, residential construction, mining, small business) are in recession. Despite this, Hazmat is now a sustainable entity that can serve the strategic needs of the Department of Defence as well as other commercial clients.

INSTITUTE FOR MARITIME TECHNOLOGY (IMT)

IMT strives to meet the South African Navy's (SA Navy) present and future needs in scientific and technical system support and real-time Naval operational solutions, including the maintenance of strategic capabilities. IMT also provides scientific and technical support services to the broader Department of Defence and the South African as

well as regional maritime communities. IMT utilizes commercial opportunities which arise from its core business and renders techno-military expertise in the areas of Environmental Assessment, Above Water Sensors and Signatures, Underwater Sensors and Signatures, Naval Systems Subsurface, Naval Systems Above Water, Underwater Security, Decision Support and Integrated Signature Management. IMT's location in Simon's Town enables it to offer these unique services directly to the SA Navy, its primary client.

During the year under review IMT continued to render services of a high standard and to the satisfaction of its clients and principals.

IMT continued assisting the Sitron joint project team in bringing the newly acquired frigates into full service.

A comprehensive electronic data capture system is currently being installed. This system enables the monitoring not only of most onboard systems but also of the performance of sensors and effectors for both real-time and post-operations assessment. A similar system is being operationalised onboard the Type 209 submarines.

In addition, a submarine communications buoy prototype has been successfully evaluated. This buoy is designed to be released from a submarine, enabling the submarine to perform radio communications with surface vessels and aircraft.

The buoy is tethered to the submarine with a thin fibre optic cable of a few kilometres.

The combined effort between the Navy and IMT to establish the knowledge baseline on operating the new acquisitions in local conditions remains ongoing.

The Integrated Maritime Technology Demonstrator (IMTD) is continually being expanded and updated and has been available to ships, submarines and training establishments for a number of years as a means of knowledge transfer to the operators.

IMT makes a substantial contribution to a number of operators courses run by Naval Training establishments, notably the Combat Officers Qualifying Part 2 (COQ2) course as a means of ongoing knowledge and technology transfer.

IMT played a major role in assisting the Navy with the acceptance into service of its newly acquired underwater Multi-Influence Range (MIR). It is foreseen that IMT will continue supporting the Navy in deploying and operating this range whilst still operating its own ranges for scientific research purposes.

The contribution to acquisition support has increased substantially with IMT's involvement in pre-studies on the proposed sealift and multi-purpose / offshore patrol capabilities to be acquired by the Navy.

IMT made a substantial contribution to the effort of the Joint Operations Division to establish a baseline for the Joint Maritime Defence Capability Portfolio in conjunction with Defence Institute (DI) and other role players.

Similarly, IMT is obtaining support from DI for its support to Combat Readiness Modelling (CRM) to the SANDF. The CRM "system" is currently deployed as a technology demonstrator but indications are that the client community is aiming at acquiring this capability as an operational requirement.

The year under review has been the first year that IMT has participated in the Navy Systems Support Centre (SSC) based in the Simon's Town Dockyard.

The SSC manages the execution of the contracts which Armscor places with industry for repair, maintenance and operational support across a wide range of disciplines.

IMT's major contribution to the SSC has been acoustic signature management support, but it is foreseen that this could grow into other areas where the Fleet has already been utilising IMT support.

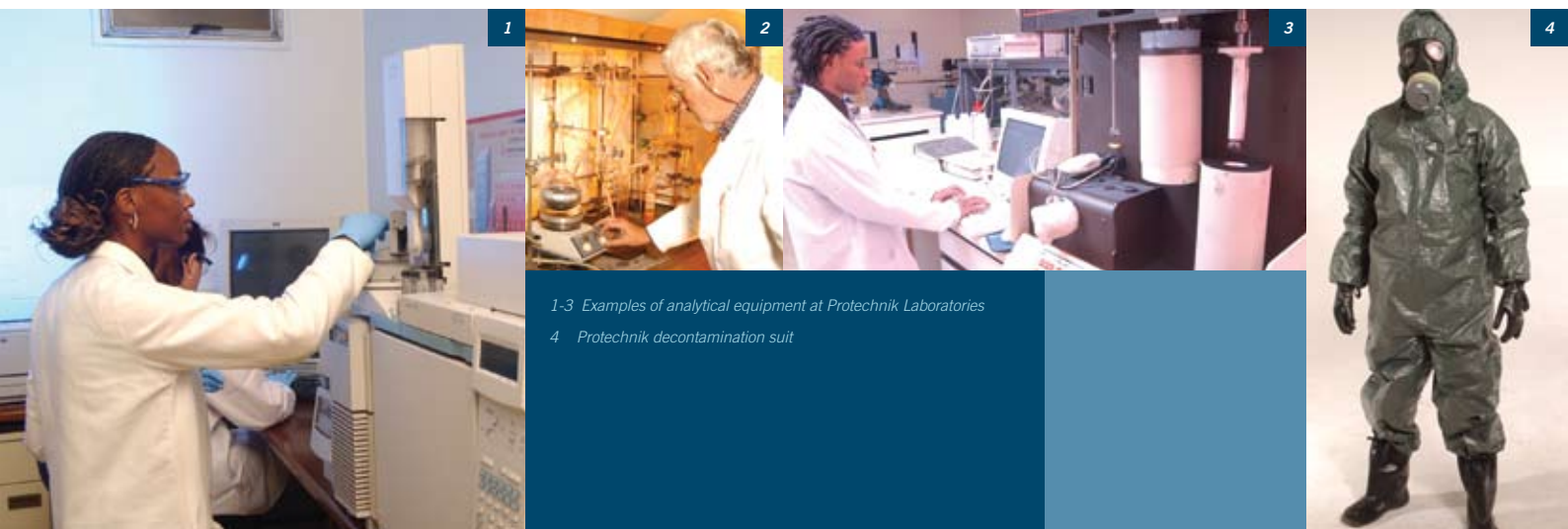
As assistance to the Navy in its preparations for the Confederations Cup and 2010 Soccer World Cup, IMT has been participating in port security exercises with other authorities.

Successful trials have been performed using the IMT developed Autonomous Under Vehicle (AUV) as a surveillance platform. Fitted with a small camera and radio antenna on a periscope mast, the AUV has demonstrated its ability to transmit both live video data and side scan sonar data back to the launch platform. In this way a picture of both the above-water and underwater environment of an unknown port can be obtained covertly in real time.

Exposure to Joint Command and Control (C2) and combined interoperable capability is significantly increasing insight into situational awareness in the maritime domain. This effort also provides impetus to the Integrated Maritime Picture (IMP) initiative and the net-centric approach to the new paradigm of information management and its impact on maritime warfare.

To this end, IMT is co-operating with the Joint Operations Division of the SANDF, DI and DPSS (CSIR) in establishing the maritime component of the IDE (integrated development environment) that is being developed for the evaluation of leading-edge C2 systems.

As part of its ongoing environmental monitoring effort, IMT – together with the Navy, National Parks, the University of Cape Town and the Cape Metropolitan Council – once again hosted its annual public feedback session for residents of Simon's Town and other interested parties on the quality of seawater and beaches in Simon's Bay.



1-3 Examples of analytical equipment at Protechnik Laboratories

4 Protechnik decontamination suit

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 South African National Defence Force (SANDF).

Work continued on the development of detection and decontamination systems which would be utilised during the 2010 FIFA Soccer World Cup. A suite of detectors has been selected, which will enable the detection of both classical chemical warfare agents toxic industrial chemicals and radiation. Training curricula have been compiled to train troops and first responders to use the equipment.

The first of the locally developed decontamination stations for mass personnel and mass casualty decontamination have been delivered and used for training SANDF personnel and first responders.

A prototype fully encapsulated suit made from Tychem F material was made and demonstrated to personnel of the SAPS, Sasol and the South African Navy. Much interest was shown in this product and several improvements suggested. The suit was extensively tested in the test chamber to detect any areas of leakage. Improved versions have been produced and will be evaluated during the next financial year.

The biochemical laboratories were equipped with additional equipment, which enabled an in-depth study to be conducted on the anthrax bacteria.

Various strains of anthrax have been genotyped and detection techniques tested.

Additional funding was received from SAMHS, which enabled outdated analytical equipment to be replaced. A new HPLC (High Performance Liquid Chromatograph) system was commissioned, improving the analytical capability of Protechnik Laboratories.

The highlight of the year was when the President of South Africa visited Protechnik Laboratories. The President was taken on a tour of the laboratories and was treated to a demonstration of CB defensive equipment by 7 Medical Battalion Group. The President reaffirmed the importance of the work conducted by Protechnik Laboratories.

Protechnik played an important role in two courses organised by the Organisation for the Prohibition of Chemical Weapons (OPCW) for African countries. The Fourth Regional Assistance and Protection Course was held at Ditholo and was attended by participants from 16 African countries. The First Basic Analytical Chemistry Course was held with the help of scientists from Verifin in Finland. This two-week course concentrated on the use of gas chromatography and gas chromatography-mass spectrometry to detect quantitative hazardous organic chemicals. The courses were most successful and the OPCW has requested that they be presented again in 2010.

Project work for the South African Navy continued and a NBC (nuclear, biological, chemical) filter station was procured from Noske-Kaeser for evaluation purposes. Carbon filters for the station have been developed and manufactured locally and will be evaluated in the new year. Protechnik also developed an odour filter for use on board the frigate.

DEFENCE EVALUATION AND RESEARCH INSTITUTE (DERI)

This is an Institute that was formed as a result of the Directive given by the former Minister of Defence, Mr Lekota, for Armscor to transform. One of the considerations was that all entities forming part of Armscor Business be migrated to this Institute. An Acting CEO was appointed to lead this migration process. The migration process has met with a number of challenges. It is also envisaged that the new Minister will give direction as to whether or not this process should continue.

HUMAN RESOURCES

The human capital of Armscor remains the key contributor to its success. It is thus important for Armscor to retain scarce skills.

This has been a challenge against the background of transformation requirements and the high demand for the specialist technical skills in the market in general.

Staff composition

The staff profile of Armscor including Armscor Dockyard, as at 31 March 2009 per broad band, race and gender, is indicated below.

The table indicates that Armscor had 1 324 employees. More than 56,3% were from the Black group, 27,1% were African and 29,6% were female.

The staff profile of Armscor excluding the Armscor Dockyard, as at 31 March 2009 per broadband, race and gender, is indicated below.

ARMSCOR STAFF PROFILE INCLUDING ARMSCOR DOCKYARD

Broad band	AFRICAN		COLOURED		INDIAN		WHITE		TOTAL		GRAND TOTAL
	M	F	M	F	M	F	M	F	M	F	
EX	3	2	0	0	0	0	1	0	4	2	6
SU	7	4	1	0	3	1	40	3	51	8	59
MP	56	12	16	1	13	4	265	33	350	50	400
STS	39	43	28	11	8	9	51	88	126	151	277
AS	49	73	201	29	0	6	56	40	306	148	454
OS	42	29	52	4	0	0	1	0	95	33	128
TOTAL	196	163	298	45	24	20	414	164	932	392	1324
%	14.80%	12.31%	22.51%	3.40%	1.81%	1.51%	31.27%	12.39%	70.39%	29.61%	100%
	27,11%		25,91%		3,32%		43,66%		100%		
	56,34%						43,66%		100%		

ARMSCOR STAFF PROFILE EXCLUDING ARMSCOR DOCKYARD

Broad band	AFRICAN		COLOURED		INDIAN		WHITE		TOTAL		GRAND TOTAL
	M	F	M	F	M	F	M	F	M	F	
EX	3	2	0	0	0	0	1	0	4	2	6
SU	7	4	1	0	3	1	39	3	50	8	58
MP	54	12	12	1	13	4	258	33	337	50	387
STS	38	43	15	11	8	9	35	78	96	150	246
AS	41	70	16	20	0	5	7	35	64	130	194
OS	39	29	4	2	0	0	0	0	43	31	74
TOTAL	182	160	48	34	24	19	340	158	594	371	965
%	18.86%	16.58%	4.97%	3.52%	2.49%	1.97%	35.23%	16.37%	61.55%	38.45%	100%
	35,44%		8,50%		4,46%		51,61%		100%		
	48,39%						51,61%		100%		

The table indicates that Armscor (excluding the Armscor Dockyard) had 965 employees. More than 48,3% were from the Black group, 35,4% were African and 38,4% were female.

Transformation

Transformation remains one of the key challenges and focus areas within the organisation.

As a consequence of continuous efforts and focused actions using all opportunities available, the racial and gender profile of Armscor, excluding the Dockyard numbers, has changed substantially over the last 10 years as evident in the following:

- The % black employees has grown from 25,81% in March 1999 to 48,39% in March 2009 (43,28% in March 2008).
- The % female employees has grown from 34,49% in March 1999 to 38,45% in March 2009 (37,71% in March 2008).

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

- Target: At least 80% of all new appointees in Armscor to be black.
- Performance: At the end of the year 92,9% of all new appointments were from the black group
- Target: At least 20% of external appointees in technical functional group to be women.
- Performance: 19,2% of external appointees in technical functional group were women.
- Target: At least 65% of external appointees in non-technical functional group to be women.
- Performance: 65,2% of external appointees in non-technical functional group were women.
- Target: At least 29% of employees in the broad band STS and above to be women. Performance: 30,1% of employees in the broad band STS and above are women.

The transformation targets are supported by focused recruitment actions as well as the maintenance of a bursary scheme and a Talent Development Programme to grow the internal sources for appointment. This is further supported by specific succession and rejuvenation plans.

Retention and rejuvenation

The age distribution of employees remains a major risk area for the organisation in terms of service delivery in future.

The situation has been aggravated with the transfer of the Dockyard to Armscor. The average age of all personnel is 45 years. For technical employees it is 46; for Armscor, excluding the Dockyard, it is 45, and for the Dockyard it is 48. More than 40% of the workforce is older than 50 years and more than 6,4% is older than 60 years. More than 23,8% of the technical employees are older than 50 years and 6,4% are older than 60.

The retention of key technical capabilities remains challenging in the volatile business environment within South Africa and internationally. The labour turnover has decreased from the previous year. 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%; and 2008/09: 8,1%. The turnover for the Dockyard was 10,3%. The turnover of Black employees for Armscor, excluding the Dockyard, has decreased to 8,3%. This was achieved notwithstanding the shortage and demand of technical skills in this key group in the market. Sixty percent of the terminations were employees that were from the scarce skills category (44,1% in the case of Armscor, excluding the Dockyard and 92,1% in the case of the Dockyard).

A number of strategies have been implemented to address the two issues above. Among them are a detailed succession planning and development strategy, a transformation and renewal strategy including planned skills transfer actions, and a drive to motivate additional transfer payment to enable the organization to implement a catch-up strategy on remuneration. The strategies are all focused on the medium to long term.

Skills development

The skills level of Armscor employees remains one of the most important drivers of successful service delivery. 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 (ABET)

Armscor provided Adult Basic Education and Training to thirty-three Armscor and twenty-three other (i.e. SANDF) personnel.

The courses offered are limited to 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 qualification would not be sufficient because of its academic orientation. The ABET Programme has been extended to provide training in useful business-related skills, such as basic computer skills and customer satisfaction. The programme is well received by learners and managers alike. It provides the opportunity for these disadvantaged adults to integrate into the mainstream business activities.

Talent Development Programme

The Talent Development Programme (TDP) provides opportunities for newly qualified talent, 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 whilst on a formal coaching programme. In the past financial year seventeen (17) incumbents participated on the programme. Of these, sixteen (16) were from the Black group (11 African, 1 Coloured and 4 Indian) and five (5) were female. Eight (8) were appointed in full-time positions.

In addition to the Talent Development Programme, Armscor also has a bursary scheme serving as a feeder for the recruitment of new talent. Bursaries for engineering were granted for seven (7) students, all from the Black group.

E-learning

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

Courses are delivered to personnel via an intranet-based Learner Management System (LMS). The LMS tracks the learner's 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 utilizes off-the-shelf courses for generic skills like business and computer skills.

E-learning has good acceptance as 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 Service SETA sponsored 19 Armscor personnel on their Project Management Learnership, leading to the qualification National Certificate, Project Management, NQF level 4. This learnership will be completed at the end of July 2009. The learnership consists of a blend of self-paced e-learning, coaching and workshops.

Corporate Social Investment

Armscor has a dedicated Corporate Social Investment programme. This programme was established in 2003 where Armscor adopts a school in a disadvantaged community with the aim of improving maths, science and English results. This model was adopted in line with the Dinaledi Programme of the Department of Education. The aim of the Dinaledi Programme is to turn certain schools into centres of excellence for maths and science. In the light of constrained budgets, Armscor decided on adopting this model.

The first school that was adopted was Vlakfontein Technical High School from 2003-2006. An amount in excess of R300 000 was spent for those years. In the first year the matric results improved from 52% in 2003 to 71% in 2004. In 2005 the results dropped to 59%. This was in spite of the intervention and that the schools was requested to improve its results.

The second school that is currently adopted is Phelindaba High School in Atteridgeville. To avoid non-performance, Armscor has had to negotiate a Service Level Agreement (SLA) with the school. This SLA was finally signed on 20 October 2008. The agreement spells out the obligations of both parties towards each other and towards improving the learner in the said subjects.

For the financial year 2008/09 an Administration Committee was set up consisting of teachers and Armscor staff members. This Committee meets monthly to see to it that the requirements of the SLA are met. An amount of R200 000 has been budgeted for 2009/2010 for this dedicated programme.

Labour relations

In January 2008 Armscor signed a recognition agreement with Solidarity Union. In terms of the agreement Armscor consults and negotiates with the Union on all issues affecting the employment of employees, including remuneration.

The organisation is in the process of changing the constitution of the Armscor Consultative Group (ACG) to be the forum for consultation on issues of employment equity in terms of the Employment Equity Act.

annual report 2009

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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 it 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 corporate audit division, as well as through discussions 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 Armscor group for the year ended 31 March 2009 and considers that it complies, in all material respects, with the requirements of the Public Finance Management Act (Act No 1 of 1999), as amended, as well as South African Statements of Generally Accepted Accounting Practice.

The Audit and Risk Committee agrees that the adoption of the going concern premise is appropriate in preparing the annual financial statements. It has therefore recommended the adoption of this annual report to the Board of Directors at its meeting on 5 August 2009.



Mr E L Borole

Chairperson

23 July 2009

REPORT OF THE AUDITOR-GENERAL

To parliament on the Group Financial Statements and Performance Information of the Armaments Corporation of South Africa limited for the year ended 31 March 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying group financial statements and financial statements of the Armaments Corporation of South Africa Limited which comprise the consolidated and separate balance sheet as at 31 March 2009, the consolidated and separate income statement, the consolidated and separate statement of changes in net equity, the consolidated and separate cash flow statements for the year then ended, a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 50 to 54, and 60 to 106.

The accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the 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), the Armaments Corporation of South Africa, Limited Act, 2003 (Act No. 51 of 2003) and the Companies Act of South Africa and for such internal control as the accounting authority determines, is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. 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.
5. 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.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion the 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 2009 and its consolidated and separate financial performance 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, the Armaments Corporation of South Africa, Limited Act, and the Companies Act of South Africa.

Other matter

Without qualifying my opinion, I draw attention to the following matter that relates to my responsibilities in the audit of the financial statements:

Governance framework

8. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting authority and executive management and are reflected in the key governance responsibilities addressed below:

Key governance responsibilities

9. The PFMA tasks the accounting authority with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✓	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.	✓	
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✓	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines (section 55 of the PFMA).	✓	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	✓	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> The Armscor Group had an audit committee in operation throughout the financial year. 	✓	
	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 	✓	
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 27.1.8. 	✓	
7.	Internal audit		
	<ul style="list-style-type: none"> The Armscor Group had an internal audit function in operation throughout the financial year. 	✓	
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 	✓	
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 27.2. 	✓	

No.	Matter	Y	N
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	✓	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✓	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in Treasury Regulation 27.2.	✓	
12.	Power and duties have been assigned, as set out in Section 56 of the PFMA.	✓	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	✓	
Issues relating to the reporting of performance information			
14.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
15.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	✓	
16.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Armscor Group against its mandate, predetermined objectives, outputs, indicators and targets, as set out in Treasury Regulation 29.1/30.1.	✓	
17.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

10. I have reviewed the performance information as set out on pages 55 to 59.

The accounting authority's responsibility for the performance information

11. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

The Auditor-General's responsibility

12. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.

13. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

14. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

APPRECIATION

15. The assistance rendered by the staff of the Armscor Group during the audit is sincerely appreciated.

Auditor-General

Pretoria
30 July 2009



DIRECTORS' APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

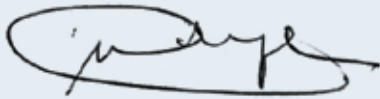
The Board recognises and acknowledges its responsibility for the group's internal control systems.

Management is responsible for preparing the annual financial statements and the group annual financial statements in accordance with generally accepted accounting practices.

The directors, supported by the Audit and Risk Management Committee, are satisfied that management has 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 the Corporation accept responsibility for the financial statements. The information on pages 50 to 106 was approved by the Board of Directors on 5 August 2008.

Signed on behalf of the Board by:

A handwritten signature in black ink, appearing to read 'PS Molefe', enclosed within a large, loopy oval shape.

Dr PS Molefe

Chairman

THE COMPOSITION OF THE BOARD

The composition of the Board of Directors during the year under review was as follows:

Term of office of Directors

Board Member	Date of Appointment	Date of Expiry	Date of Re-Appointment	Date of Expiry	Date of Extension	Date of Expiry of Extension	Term Served
Dr PS Molefe	1 Oct 2004	30 Sept 2007	1 Oct 2007 (Extension)	31 Mar 2008 (Expiry of Extension)	1 Apr 2008 (Re-appointment)	31 Mar 2011 (Expiry)	1
Mr RP Meyer	1 Oct 2004	30 Sept 2007	1 Oct 2007 (Extension)	31 Mar 2008 (Expiry of Extension)	1 Apr 2008 (Re-appointment)	31 Mar 2011 (Expiry)	1
Mr HS Thomo	10 Jul 2002	His appointment is linked to his position as Chief Executive Officer					
Mr EL Borole	1 May 2008	30 Apr 2011	-	-	-	-	10 months
Ms N Medupe	1 May 2008	30 Apr 2011	-	-	-	-	10 months
Ms R Msiza	1 May 2008	30 Apr 2011	-	-	-	-	10 months
Ms V September	1 May 2008	30 Apr 2011	-	-	-	-	10 months
Mr LW Mosiako	1 May 2008	30 Apr 2011	-	-	-	-	10 months
Mr SA Msibi	1 May 2008	30 Apr 2011	-	-	-	-	10 months
Mr JG Grobler	11 Sept 2008	His appointment is linked to his position as Chief Financial Officer					
Company Secretary							
Ms TN Msomi	1 Jan 2007	Resigned with effect from 1 April 2009					

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

Ms TN Msomi
370 Nossob Street
Erasmuskloof Extension 4
Private Bag X337
0001 Pretoria

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DIRECTORS' REPORT

Introduction

The Armaments Corporation of South Africa Limited (“Armcor”) is a statutory body, 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).

Armcor is also 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 Armcor, measured against performance targets that the Corporation had set itself for the financial year.

Corporate governance

Board accountability

The Board of Directors adheres to the principles of good corporate governance as espoused in the PFMA, King II Report and Protocol on Corporate Governance in the Public Sector. This entails the provision of oversight over the management of the assets of the organisation diligently and in a fair and transparent manner. During the year under review great effort went into the streamlining of reporting to the shareholder in the form of a Shareholder Compact, Service Level Agreement and corporate plan to ensure that the targets, measures and outputs are clearly articulated to enhance the Board’s accountability.

Priority was also given to the review of the acquisition processes to ensure that these are functioning properly and their integrity is ensured. This was an important initiative given that the core business of Armcor is acquisition of defence matériel and that it involves the utilisation of public resources.

Good corporate governance requires that the organisation in conducting its business takes into

account the policy and legislative imperatives of government. With respect to the internal transformation, the organisation put in place practices that regulate employment equity as regards staff appointments and incorporation of black economic empowerment in acquisition and procurement contracts.

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 daily 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 2008/2009

Names	Board of Directors meetings	Audit and Risk Committee meetings	Human Resources Committee meetings	Executive Committee meetings	Special Board in-committee meetings
Dr PS Molefe	12 out of 12	Non-member	Non-member	2 out of 2	6 of 6
Mr HS Thomo (CEO)	12 out of 12	2 out of 3	2 out of 2	2 out of 2	4 of 4
Mr RP Meyer	11 out of 12	3 out of 3	Non-member	2 out of 2	5 of 6
Ms N Medupe	10 out of 12	2 out of 3	Non-member	Non-member	6 of 6
Mr EL Borole	12 out of 12	3 out of 3	Non-member	Non-member	6 of 6
Mr SA Msibi	11 out of 12	Non-member	2 out of 2	Non-member	6 of 6
Mr LW Mosiako	9 out of 12	Non-member	2 out of 2	Non-member	4 of 6
Ms V September	12 out of 12	Non-member	2 out of 2	Non-member	6 of 6
Ms R Msiza	11 out of 12	Non-member	1 out of 2	Non-member	6 of 6
Mr JG Grobler (CFO)*	4 out of 4	3 out of 3	Non-member	-	2 of 2

*Officially appointed as CFO (Executive member) with effect from 11 September 2008.

Ms Molemela was appointed as a Director but resigned before the first board meeting. The reason for her resignation was that she was appointed to the Bench.

External member Audit and Risk Committee

Mr MD Nkhabu	Non-member	2 out of 3	Non-member	Non-member	Non-member
--------------	------------	------------	------------	------------	------------

Company Secretary

Ms TN Msomi	12 out of 12	3 out of 3	2 out of 2	2 out of 2	6 out of 6
-------------	--------------	------------	------------	------------	------------

Meetings of the Board Committees and Subcommittees 2008/2009

Names	Special Audit and Risk Committee	Special Human Resources Committee	Special Human Resources sub-committees		Special Committee of the Board on Vistula internal investigation
			BSC	Contract of the CEO	
Dr PS Molefe	Non-member	Non-member	Non-member	Non-member	Non-member
Mr HS Thomo (CEO)*	3 out of 4	Non-member	1 out of 1	2 out of 2	Non-member
Mr RP Meyer	3 out of 4	Non-member	Non-member	Non-member	1 out of 2
Mr EL Borole	4 out of 4	Non-member	Non-member	Non-member	Non-member
Ms N Medupe	3 out of 4	Non-member	Non-member	Non-member	Non-member
Mr SA Msibi	Non-member	2 out of 2	1 out of 1	2 out of 2	2 out of 2
Mr V September	Non-member	1 out of 2	Non-member	Non-member	2 out of 2
Ms R Msiza	Non-member	2 out of 2	Non-member	Non-member	2 out of 2
Mr LW Mosiako	Non-member	2 out of 2	Non-member	Non-member	2 out of 2
Mr JG Grobler (CFO)*	4 out of 4	Non-member	Non-member	Non-member	Non-member

*On invitation.

External members

Mr MD Nkhabu	1 out of 4	Non-member	Non-member	Non-member	Non-member
--------------	------------	------------	------------	------------	------------

Company Secretary

Ms TN Msomi	3 out of 4	2 out of 2	Non-member	1 out of 1	2 out of 2
-------------	------------	------------	------------	------------	------------

Board sub-committees

The challenges of limited capacity at Board level were addressed during the year and the committees are effective in enabling the Board to exercise oversight and give direction to the organisation.

The Audit and Risk Committee

The committee was chaired by a non-executive director and comprised four members, three of which were non-executive directors, and one independent member. The committee operated under an approved Charter. The Chief Executive Officer, the Chief Financial Officer and internal and external auditors attended meetings of the committee by invitation.

The Human Resources Committee

The Human Resources Committee comprised four non-executive members, one of whom is the Chairperson. This committee was responsible for addressing most of the organisational issues, most of which are referred to in the Chairman's report.

The Executive Committee

The Executive Committee comprises non-executive members and is convened on an urgent basis to deliberate and decide on urgent matters of the Board. There were no executive committee meetings during the year under review.

Disqualification of Armscor directors

None of Armscor's Board members are disqualified from serving as directors on any of the grounds contained in either the Companies Act, 1973 (as amended) or in 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 18 of this report.

Significant events reported to the Executive Authority

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

Litigation matters

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 North 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 1980's. A preliminary hearing of this matter is expected to be heard in the Portuguese Courts in the last quarter of 2009. 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.

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. The matter will proceed in the normal course.

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. Default judgment

was handed down in favour of Armscor Business and the Defendant subsequently filed a rescission application. The matter will be heard in November 2009 in the North Gauteng High Court. 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 North Cape High Court.

Protocol for communication with shareholder

The Executive Authority for Armscor is the Minister of Defence, who represents the Shareholder. The Board as the Accounting Authority of the Corporation reports to the Minister of Defence. 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, and additional ad hoc reports were also submitted.

Going concern

The process of restructuring Armscor to focus on its primary role as the acquisition agency of defence matériel on behalf of the Department of Defence has been completed during the period under review. The Board has reviewed the Group's financial budgets for the period 1 April 2009 to 31 March 2009 and is satisfied that adequate resources exist. Armscor is, furthermore, in discussion with the Department of Defence to ensure proper funding for the required functions to be performed. The directors, therefore, have no reason to believe that Armscor will not remain a going concern in the foreseeable future.

Post balance sheet events

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

PERFORMANCE AGAINST GOALS

Operational Objectives for the 2008/2009 Financial Year

The Armscor Three Year Integrated Corporate and Business Plan define seven key performance indicators. The first five of these key performance indicators are directly linked to Armscor's functions as defined in the Armscor Act. The other key performance indicators deal with Armscor's Black Economic Empowerment (BEE) initiative, which is in support of government BBBEE Act and the transformation of Armscor to reflect the demographics of the country.

A three-year strategy was developed for each of the aforesaid performance against goals key performance indicators, with specific performance indicators / goals for the 2008/2009 financial year in each area.

Performance against goals

Armscor translates its operational objectives into strategic initiatives. 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 acquisition cost versus the total of forecasted acquisition activities. A goal of 3,74% was set for the 2008/2009 financial year. A result of 4,2% was achieved against actual, compared with 4,4% for the 2007/2008 period. The goal for 2008/2009 was not fully achieved, however, because the total acquisition activities was reduced by R2069m due to extension of milestone deliveries on acquisition projects and requirements for R536m not received from the South African Defence Force.

Armscor's subsidiary companies experienced a loss of R7,0m, of which Armscor Business (Pty) Ltd contributed a loss of R3,5m against a set target of R7,7m loss. The loss of the property companies amounts to R3,5m, which consists of a depreciation on buildings.

Key Performance Indicator	Goal	Performance against Goal
Objective 1: CAT 1 Capital Defence Matériel Acquisition excluding strategic defence acquisition but including technology acquisition		
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 requirements from the DOD by the end of December of the financial year.	90%	DOD requirements to the value of R583 857 544 was received. Armscor committed R583 409 986 of the above-mentioned funds, resulting in an achievement of 99,92% against the set target of 90%. Objective exceeded

<p>1.2 Cash Flow</p> <p>Armcor's target of 90% cash flow would be measured against the formally planned cash flow in terms of achieved commitments for the financial year.</p>	<p>90%</p>	<p>The agreed planned cash flow for the financial year in order to execute the orders placed amounted to R4 085 695 640.</p> <p>Armcor managed to realise cash flow to the value of R3 520 481 279, resulting in an achievement of 86,17% against the set target of 90%. This is mainly due to the Industry struggling to achieve its objectives on large complex projects. Indications are the main contributing factors as the lack of skills in the programme management and system engineering environment and seems to be universal across the industry.</p> <p>Objective partially achieved</p>
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Key Performance Indicator	Goal	Performance against Goal
Objective 2: Strategic Defence Acquisition		
<p>2.1 Contracts to be placed by Armcor</p> <p>Armcor'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 requirements from the DOD by the end of December of the financial year.</p>	<p>90%</p>	<p>DOD requirements to the value of R72 956 749 were received.</p> <p>Armcor committed R72 944 042 of the above-mentioned funds, resulting in an achievement of 99,98% against the set target of 90%.</p> <p>Objective exceeded</p>
<p>2.2 Cash Flow</p> <p>Armcor's target of 90% cash flow would be measured against the formally planned cash flow in terms of achieved commitments for the financial year.</p>	<p>90%</p>	<p>Formally planned cash flow for the financial year amounted to R4 656 030 591.</p> <p>Armcor managed to realise cash flow to the value of R4 578 805 197 resulting in an achievement of 98,34% against the set target of 90%.</p> <p>Objective exceeded</p>

Key Performance Indicator	Goal	Performance against Goal
Objective 3: System support: Acquisition and Procurement		
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 requirements from the DOD by the end of December of the financial year.	90%	DOD requirements to the value of R707 606 337 were received. Armscor committed R703 700 536 of the above-mentioned funds, resulting in an achievement of 99,59% against the set target of 90%. Objective exceeded
3.2 Cash Flow. 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%	Formally planned cash flow for the financial year amounted to R2 241 995 436. Armscor managed to realise cash flow to the value of R2 143 424 123, resulting in an achievement of 95,60% against the set target of 90%. Objective exceeded

Key Performance Indicator	Goal	Performance against Goal
Objective 4: Management of Defence Industrial Participation (DIP)		
4.1 Value of DIP credits to be granted to overseas suppliers.	R983.445m credits to be approved by 2009-03-31	DIP credits amounting to R1 082m were approved. Objective exceeded

Key Performance Indicator	Goal	Performance against Goal
Objective 5: Management of Defence Technology, Research, Test and Evaluation requirements of the Department of Defence		
5.1 Manage of Defence Technology, Research, Test and Evaluation approved budget.	Not to exceed R7.7m loss	Income statement reflects a loss of R9m (excluding the positive effect of the recognition of the surplus in the Medical Continuation Fund). High risk sales did not materialised, but other sales with low contribution value materialised. The higher operating expenses are mainly due to depreciation on new equipment to maintain the minimum capabilities of the various facilities. Objective not achieved

Service		Approved Budget (R millions)	
Management, maintenance and funding of strategic facilities.		Budget	Actual
	1. Income	237.6	239.9
	Revenue	232.8	231.5
	Finance Income	4.81	8.4
	2. Expenditure	245.3	248.9
	Cost of Sales	81.5	83.3
	Operating Expenses	163.8	165.6
3. Net Income / (Loss)	(7.7)	(9.0)	

Key Performance Indicator	Goal	Performance against Goal
Objective 6: Black Economic Empowerment		
6.1 Increase Armscor's spending in respect of Armscor's operating budget, SDA and GDA accounts and Armscor's Business' discretionary cost of sales on BEE companies as specified per category.	Operating budget.: 50%	Spending on the operating budget achieved 66,57% against a target of 50%. (Total purchases excluding parastatals is R37 951 710. The total spent on BEE companies was R25 266 188.) Objective exceeded
	SDA & GDA: 25%	Spending on the SDA and GDA accounts achieved 27,57% against a target of 25%. (The target refers to BEE expenditure as a percentage of total acquisition project expenditure. R1 418 400 112 is the net figure excluding SDPs, A400m, Maulstic, parastatals and multi-nationals for the year and the figure in respect of expenditure on BEE companies was R391 004 439.) Objective exceeded
	Armscor Business (% of discretionary cost of sales): 40%	Spending by Armscor Business achieved 34,4% against a target of 40% of discretionary cost of sales and operating expenses. The target of 40% was based on discretionary cost of sales and operating expenses which amounted to R79 270 917 net figure after taking out non-discretionary spending i.e. other Government departments, inter-departmental and foreign business. The BEE spent was R27 243 780 after deducting the amount spent through Infrastructure Division. BEE spending was influenced by dependency on certain vendors with specialized products with low black equity status. Objective partially achieved

Key Performance Indicator	Goal	Performance against Goal
Objective 7: Human Resource Targets		
7.1 Improve the demographic profile of Armscor to reflect the national and regional demographic profile.	<p>At least 80% of external appointees to be black</p> <p>At least 20% of external appointments in the technical functional groups to be women</p> <p>At least 65% of external appointments in the non-technical functional groups to be women.</p> <p>At least 29% of employees in the supervisory levels and above to be women.</p>	<p>92,86% of all external appointees were black. Objective exceeded</p> <p>19,23% of all external appointees in the technical functional groups were women. Objective partially achieved</p> <p>65,22% of all external appointees in the non-technical functional groups were women. Objective achieved</p> <p>30,13% off all employees in the supervisory levels and above were women. Objective exceeded</p>
7.2 Bursaries	Grant bursaries to 6 tertiary level students in line with Armscor's strategic manpower plans	7 tertiary students were granted bursaries. Objective exceeded
7.3 Talent Development Programme.	Have 12 trainees under the scheme	A total of 17 people went through the Talent Development Programme for the 2008/2009 financial year. Objective exceeded

GROUP: FIVE YEAR REVIEW

AT 31 MARCH 2009

	2009	2008	2007	2006	2005
	Rm	Rm	Rm	Rm	Rm
BALANCE SHEETS					
ASSETS					
Property, plant and equipment	214.6	203.3	197.9	194.6	200.2
Intangible assets	0.3	0.2	0.2	-	-
Other non current financial assets	94.4	84.3	68.5	-	-
Other non current financial liabilities	(64.5)	(24.0)	-	-	-
Net current assets	307.7	250.8	204.0	218.0	197.6
	<u>552.5</u>	<u>514.6</u>	<u>470.6</u>	<u>412.6</u>	<u>397.8</u>
EQUITY AND LIABILITIES					
Ordinary shareholders' interest	<u>552.5</u>	<u>514.6</u>	<u>470.6</u>	<u>412.6</u>	<u>397.8</u>
INCOME STATEMENTS					
REVENUE					
Sale of goods	1,527.2	967.0	1,236.9	736.2	760.5
Allocation from the State budget for operating and technology expenditure	479.0	415.6	347.6	315.4	284.1
Finance income	45.8	35.7	25.7	19.7	21.7
Rental income	28.7	26.2	23.8	21.6	19.7
Other income	36.2	17.5	19.6	14.5	19.1
	<u>2,116.9</u>	<u>1,462.0</u>	<u>1,653.6</u>	<u>1,107.4</u>	<u>1,105.1</u>
SURPLUS/(DEFICIT) FOR THE YEAR					
	<u>37.9</u>	<u>44.0</u>	<u>58.0</u>	<u>14.8</u>	<u>(4.1)</u>
TOTAL VALUE OF ACQUISITION ACTIVITIES					
Special Defence Account	9,114.7	7,794.0	8,003.5	7,408.3	6,549.0
General Defence Account	1,125.3	807.3	832.1	834.0	728.5
Other	246.2	210.6	195.3	163.6	109.3
	<u>10,486.2</u>	<u>8,811.9</u>	<u>9,030.9</u>	<u>8,405.9</u>	<u>7,386.8</u>

GROUP VALUE ADDED STATEMENT

FOR THE YEAR ENDED 31 MARCH 2009

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.

	2009	%	2008	%
	Rm		Rm	
Revenue	2,116.9		1,462.0	
Sale of goods and services	1,527.2		967.0	
Government grant	479.0		415.6	
Rental Income	28.7		26.2	
Other income	36.2		17.5	
Finance income	45.8		35.7	
Less: Paid to suppliers for materials and services	(1,525.2)		(962.3)	
TOTAL VALUE ADDED	591.7	100	499.7	100
DISTRIBUTED AS FOLLOWS:				
To employees as salaries, wages and other benefits	519.4	88	426.2	85
Finance charges	1.6	-	-	-
To Government as taxation	7.9	1	8.6	2
TOTAL VALUE ADDED DISTRIBUTED	528.9	89	434.8	87
Portion of value added reinvested to sustain and expand the business	62.8	11	64.9	13
TOTAL VALUE ADDED DISTRIBUTED AND REINVESTED	591.7	100	499.7	100
TAXATION				
Paid in taxes to Government	7.9		8.6	
• Rates and taxes to local authorities				
Collected on behalf of, and paid over to Government	173.9		111.1	
• Employees taxation deducted from remuneration paid	111.5		79.6	
• Unemployment Insurance Fund	1.9		1.6	
• Net value added taxation (VAT)	60.5		29.9	

FINANCIAL RESULTS FOR THE YEAR ENDED 31 MARCH 2009

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

STRUCTURAL CHANGES

Having received the strategic direction of Armscor and Armscor Business, as presented to the Armscor Board of Directors and the Minister of Defence, the functions of Defence Matériel (DMD), AB Logistics (ABL) and Armscor Defence Asset Management Centre (ADAC) have been migrated to Armscor as part of the Armscor corporate function and have an effect on the Armscor comparative figures but not on those of the Armscor group.

BALANCE SHEET

The net value of group assets of R552,5 million shows an increase compared with the previous year's figure of R514,6 million. Investments and cash form a substantial part of the assets and are reserved to finance specific future obligations, the most important of these being the replacement of capital equipment.

INCOME STATEMENT

Revenue for the group increased to R2 116,9 million (2008: R1 462 million) for the financial year. Included in revenue was an amount of R479,0 million (2008: R415,6 million) which was received from the State in the form of a transfer payment. The increase in the allocation included an amount of R85,9 million (2008: R51,3 million) in respect of the Armscor Dockyard that Armscor took over on 1 September 2007.

The surplus of the group decreased by R6,1 million to R37,9 million for the year under review, compared with a decrease of R14,0 million that resulted in a surplus of R44 million the previous year.

The most significant reasons for the decrease in the surplus are as follows:

	2009	2008
	Rm	Rm
• Increase in gross margin (excl. government grant)	40.0	-
• Increase in Government allocation	63.4	68.0
Armscor Corporation	28.8	16.7
Armscor Dockyard	34.6	51.3
• (Increase) in net operating expenditure of Armscor	(128.3)	(57.2)
Armscor Corporation	(73.9)	(11.4)
Armscor Dockyard	(54.4)	(45.8)
• Increase in rental income	1.6	2.6
• (Decrease)/Increase in profit of subsidiaries	1.0	(35.8)
• Increase in net finance income	10.2	7.8
• Increase in other income	6.0	0.6
NET (DECREASE)	(6.1)	(14.0)

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. Armscor's operating expenditure was lower than what was budgeted for mainly due to concerted efforts to reduce cost and personnel appointments not materialising as planned, delays in appointments and savings on subsistence and travel as acquisition projects were delayed. The recognition of the surplus on post retirement medical benefits furthermore made a positive contribution to the surplus of the group.

The loss contributed by the subsidiaries for the year under review was R7,0 million compared to a loss of R8,0 million for the previous year and is detailed as follows:

	2009	2008
	Rm	Rm
Loss from operations	(15.4)	(18.1)
Net finance income	8.4	10.1
	<u>(7.0)</u>	<u>(8.0)</u>

High risk sales did not materialise, but other sales with low contribution value materialised. Certain orders were received late which results in late deliveries and the full service will only be delivered in the next financial year. The higher operating expenses are mainly due to depreciation on new equipment to maintain the minimum capabilities of the various facilities.

BALANCE SHEET

AS AT 31 MARCH 2009

CORPORATION			GROUP		
2008	2009		NOTE	2009	2008
Rm	Rm			Rm	Rm
		ASSETS			
		NON-CURRENT ASSETS			
24.3	38.2	PROPERTY, PLANT AND EQUIPMENT	8	214.6	203.3
-	-	INTANGIBLE ASSETS	9	0.3	0.2
48.7	83.7	OTHER NON CURRENT FINANCIAL ASSETS	10	94.4	84.3
579.5	702.5	CURRENT ASSETS		546.2	418.6
236.6	180.0	Investments in subsidiaries	11	-	-
0.7	1.1	Inventories	12	6.1	6.8
24.8	178.1	Trade and other receivables	13	203.9	99.3
25.4	27.0	Cash allocated to insurance reserve	14	27.0	25.4
292.0	316.3	Cash and short term deposits	14	309.2	287.1
652.5	824.4	TOTAL ASSETS		855.5	706.4
		EQUITY AND LIABILITIES			
		CAPITAL AND RESERVES			
75.0	75.0	ORDINARY SHARE CAPITAL	15	75.0	75.0
380.5	425.4	NON-DISTRIBUTABLE RESERVES		477.5	439.6
455.5	500.4	ORDINARY SHAREHOLDERS' INTEREST		552.5	514.6
-	64.5	OTHER NON CURRENT FINANCIAL LIABILITIES	16	64.5	24.0
197.0	259.5	CURRENT LIABILITIES		238.5	167.8
105.1	69.3	Short term loan	17	-	-
18.2	129.3	Trade and other payables	18	158.6	68.0
73.7	60.9	Provisions	19	79.9	99.8
652.5	824.4	TOTAL EQUITY AND LIABILITIES		855.5	706.4

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2009

	Ordinary Share capital	General reserve	Marketing promotion reserve	Capital and building maintenance reserve	Computer upgrading reserve	Internal insurance reserve	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
CORPORATION							
Balance at 1 April 2007	75.0	256.5	9.7	22.6	15.0	24.7	403.5
Surplus for the year	-	52.0	-	-	-	-	52.0
Transfer to/(from) reserves	-	(1.1)	0.4	-	-	0.7	-
Balance at 31 March 2008	75.0	307.4	10.1	22.6	15.0	25.4	455.5
Surplus for the year	-	44.9	-	-	-	-	44.9
Transfer to/(from) reserves	-	(2.1)	0.5	-	-	1.6	-
Balance at 31 March 2009	75.0	350.2	10.6	22.6	15.0	27.0	500.4
GROUP							
Balance at 1 April 2007	75.0	320.3	9.7	25.9	15.0	24.7	470.6
Surplus for the year	-	44.0	-	-	-	-	44.0
Transfer to/(from) reserves	-	(1.1)	0.4	-	-	0.7	-
Balance at 31 March 2008	75.0	363.2	10.1	25.9	15.0	25.4	514.6
Surplus for the year	-	37.9	-	-	-	-	37.9
Transfer to/(from) reserves	-	(2.1)	0.5	-	-	1.6	-
Balance at 31 March 2009	75.0	399.0	10.6	25.9	15.0	27.0	552.5

All reserves are considered to be non-distributable. The reserves are required for the total net capital requirement of the group. Refer to accounting policy note 3.7 for the descriptions.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2009

CORPORATION			GROUP		
2008	2009		NOTE	2009	2008
Rm	Rm			Rm	Rm
		CASH FLOW FROM OPERATING ACTIVITIES:		59.2	49.0
38.0	51.9	Cash receipts from customers		1,956.4	1,417.4
461.9	1,892.4	Cash paid to suppliers and employees		(1,938.6)	(1,404.1)
(449.5)	(1,873.5)	Cash utilised by operations	A	17.8	13.3
12.4	18.9	Unrealised fair value loss		(13.9)	-
-	(13.9)	Unrealised fair value profit		11.1	-
-	11.1	Finance cost		(1.6)	-
(10.0)	(10.0)	Finance income		45.8	35.7
35.6	45.8				
		CASH FLOW FROM INVESTING ACTIVITIES:			
(11.8)	(26.0)	Investment to maintain operations		(35.5)	(24.5)
(11.8)	(27.0)	Purchase of property, plant & equipment		(37.1)	(28.0)
-	1.0	Proceeds from disposal of property, plant & equipment		1.7	3.5
-	-	Intangible assets acquired		(0.1)	-
		NET INCREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR		23.7	24.5
26.2	25.9	CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		312.5	288.0
291.2	317.4	CASH AND CASH EQUIVALENTS AT END OF YEAR	B & 14	336.2	312.5
317.4	343.3				

NOTES TO THE CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2009

CORPORATION			GROUP	
2008	2009		2009	2008
Rm	Rm		Rm	Rm
		A. CASH (UTILISED)/GENERATED BY OPERATIONS		
52.0	44.9	Surplus for the year	37.9	44.0
7.0	14.9	Adjustments for:	26.9	19.1
-	13.9	Unrealised fair value loss on financial assets	13.9	-
-	(11.1)	Unrealised fair value gain on financial liability	(11.1)	-
7.0	12.5	Depreciation	24.8	20.4
-	(0.4)	(Profit) on disposal of property, plant & equipment	(0.7)	(1.3)
10.0	10.0	Finance cost	1.6	-
(35.6)	(45.8)	Finance income	(45.8)	(35.7)
33.4	24.0	Operating surplus before working capital changes	20.6	27.4
(21.0)	(5.1)	Working capital changes	(2.8)	(14.1)
(26.8)	(35.0)	(Increase) in other non current financial assets	(10.1)	(15.8)
-	56.6	Decrease in investment in subsidiaries	-	-
5.5	(153.3)	(Increase)/Decrease in trade and other receivables	(104.6)	6.9
0.1	(0.4)	Decrease/(Increase) in inventories	0.7	(4.5)
(3.9)	(35.8)	(Decrease) in short term loans	-	-
-	64.5	Increase in other non current liabilities	40.5	-
(21.4)	111.1	Increase/(Decrease) in trade and other payables	90.6	(32.6)
25.5	(12.8)	Increase/(Decrease) in provisions	(19.9)	31.9
12.4	18.9		17.8	13.3
		B. CASH AND CASH EQUIVALENTS		
317.4	343.3	Cash on hand and balances with banks	336.2	312.5
25.4	27.0	Cash allocated to insurance reserve	27.0	25.4
292.0	316.3	Cash and short term deposits	309.2	287.1

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

1. MANDATE

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

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

The Act furthermore provides that Armcor 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.

2. FINANCIAL POLICY

Activities are financed as follows:

2.1 Armcor's operating funds

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

2.2 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 if required.

2.3 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.

3. ACCOUNTING POLICY

The Corporation's year end is the same as that of subsidiaries. The principal accounting policies adopted by the group, are set out below:

3.1 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:

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

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, amendments and interpretations not yet effective

The group has not applied various new standards and interpretations that have been issued, but which are not yet effective. These are as follows, excluding those that are not expected to apply to the group.

		Effective date for year ends commencing after:
IAS 1	Presentation of Financial Statements - Revised	2009-01-01
IAS 23	Borrowing Costs - Revised	2009-01-01
IAS 32	Amendments to IAS 32 Financial Instruments	2009-01-01
IFRS 3	Business Combinations - (Revised)	2009-07-01

Revised IAS 1 – Presentation of financial statements

This amendment requires the group to make new disclosures to enable users of the financial statements to evaluate the group's objective, policies and processes for managing capital. These new disclosures are shown in note 24.5.

IAS 23 – Borrowing costs

The amendments to IAS 23 require that borrowing costs that are directly attributable to the acquisition, construction and production of a qualifying asset to be capitalised. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

IAS 32 – Amendments to IAS 32 Financial Statements

The principles in this standard complement the principles for recognising and measuring financial assets and financial liabilities in IAS 39 Financial Statements: Recognition and Measurement, and for disclosing information about them in IFRS 7 Financial Instruments: Disclosures.

IFRS 3 – Business Combinations

Requires applying the purchase method for these transactions. Furthermore transaction costs should be recognised immediately in the income statement as well as fair value gains or losses on existing investments in an acquired company.

3.2 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

3.3 Significant accounting judgements, estimates and assumptions

3.3.1 Judgements

In the process of applying the group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

Plant and equipment utilised by contractors

The Corporation owns certain plant and equipment that were utilised by its contractors for the maintenance, manufacturing or supply of goods and services for the benefit of its clients. These assets are fully depreciated as the period of use varies between three and ten years. These assets are not in use and are mainly kept for strategic purposes, therefore no adjustment has been made to their useful life.

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. (Further details are given in note 23)

Impairment of financial assets

In determining the impairment of financial assets management estimates the future cash flow as well as the appropriate discount rate. These estimates are based on the best available information at the balance sheet 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.

3.4 Property, plant and equipment

3.4.1 Land and buildings

3.4.1.1 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.

3.4.1.2 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.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

3.4.2 *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.

3.4.3 *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 income statement in the year the asset is derecognised.*

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

3.5 **Intangible assets**

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

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

3.6 **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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

3.7 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 for 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.

3.8 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 balance sheet date. Gains or losses arising on conversion are recognised in the income statement.

3.9 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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Rental income

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

Government grant

Armcor'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.

3.10 Insurance and risk management

The insurance and risk management policies adopted by the Armcor 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 R27,0 million (2008: R25,4 million) is held in an internal insurance fund to cover these risks. This amount is disclosed as part of non-distributable reserves in the balance sheet. No major losses were experienced during the year under review. Claims of a general nature were adequately covered.

3.11 Financial instruments

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

3.11.1 Measurement

Financial instruments are initially measured at fair value, 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.

3.11.1.1 Investments

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

3.11.1.2 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 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.

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

3.11.1.3 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 balance sheet date.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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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.

3.11.1.4 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 income statement when the liabilities are derecognised as well as through the amortisation process.

3.11.1.5 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.

3.11.2 Derecognition of financial assets and liabilities

3.11.2.1 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.

3.11.2.2 Financial liabilities

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

3.11.2.3 Gains and losses

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

3.11.2.4 Financial guarantees

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

3.11.3 Impairment of financial assets

Financial assets carried at amortised cost

The group assesses at each balance sheet 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 income statement.

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 income statement.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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3.12 Provisions

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

3.13 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.

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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 at balance sheet 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.

3.14 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 income statement is restated as if the operation had been discontinued from the start of the comparative period.

3.15 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.

3.16 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

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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.

3.17 Impairment of tangible and intangible assets

The carrying amounts of assets mentioned in the accounting policy notes are reviewed at each balance sheet 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.

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.

3.18 Fruitless and wasteful expenditure

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

3.19 Borrowing costs

Borrowing costs are recognised as an expense when incurred.

3.20 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 income statement.

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CORPORATION			GROUP	
2008 Rm	2009 Rm		2009 Rm	2008 Rm
-	1,348.4	4. REVENUE		
		Sale of goods and services	1,527.2	967.0
		Government grant (Allocation from the State budget for operating and technology expenditure)	479.0	415.6
415.6	479.0	- Armscor Operational Income	393.1	364.3
364.3	393.1	- Armscor Dockyard Operational Income	85.9	51.3
51.3	85.9	Finance income	45.8	35.7
35.6	45.8	- Armscor Operational Income	32.0	24.2
34.2	40.4	- Armscor Dockyard Operational Income	3.4	1.4
1.4	3.4	- Subsidiaries	8.4	10.1
-	-	- Defence Materiel Disposal	2.0	-
-	2.0	Rental income	28.7	26.2
29.0	30.6	Profit on fair value adjustment of financial liability	11.1	-
-	11.1	Other Income	25.1	17.5
17.3	23.3	- Armscor Operational Income	21.0	8.6
16.4	21.0	- Armscor Dockyard Operational Income	1.1	0.9
0.9	1.1	- Defence Materiel Disposal	1.2	-
-	1.2	- Subsidiaries	1.8	8.0
-	-			
497.5	1,938.2	5. SURPLUS FROM OPERATIONS	2,116.9	1,462.0
		Is arrived at after taking into account		
		Loss on fair value adjustment of financial asset	13.9	-
-	13.9	Salaries, wages and other benefits	487.0	397.1
267.4	353.5	Surplus on post retirement benefits	(25.7)	(20.8)
(26.8)	(20.6)	Post Retirement Benefits	58.1	49.9
35.1	44.2	Subsidiary support (Transfer payment to Armscor Business)	-	-
38.7	33.7	Rent paid for machinery and equipment	5.6	7.5
6.7	5.3	Auditors' remuneration	2.1	1.7
1.0	1.5	Audit	1.9	1.5
1.0	1.5	Other services	0.2	0.2
-	-	Depreciation and low value assets written off on acquisition (see note 8.7)	24.8	20.9
7.0	12.5	Net foreign exchange gain	(1.2)	(4.4)
-	(1.4)	Profit from disposal of property, plant & equipment	(0.7)	(1.3)
-	(0.4)			
10.0	10.0	6. FINANCE CHARGES		
		Finance cost	1.6	-
10.0	8.4	- To subsidiaries	-	-
-	1.6	- On financial liability	1.6	-

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8.6 RECONCILIATION OF CARRYING AMOUNT

	Land	Buildings	Plant, machinery & equipment	Office equipment, furniture & computers	Vehicles & vessels	Total
2009						
	RM	RM	RM	RM	RM	RM
CORPORATION						
Net book value				35.9	2.3	38.2
Opening balance	-	-	-	23.6	0.7	24.3
Additions	-	-	-	23.9	3.0	26.9
Disposals	-	-	-	(0.2)	(0.3)	(0.5)
Depreciation	-	-	-	(11.4)	(1.1)	(12.5)
2008						
Net book value	-	-	-	23.6	0.7	24.3
Opening balance	-	-	-	18.8	0.7	19.5
Additions	-	-	-	11.7	0.1	11.8
Disposals	-	-	-	-	-	-
Depreciation	-	-	-	(6.9)	(0.1)	(7.0)
2009						
GROUP						
	RM	RM	RM	RM	RM	RM
Net book value	12.9	137.6	13.5	42.7	7.9	214.6
Opening balance	12.7	138.4	11.2	33.2	7.8	203.3
Additions	0.2	4.2	5.2	24.8	2.7	37.1
Disposals	-	(0.2)	(0.1)	(0.3)	(0.4)	(1.0)
Depreciation	-	(4.8)	(2.8)	(15.0)	(2.2)	(24.8)
2008						
Net book value	12.7	138.4	11.2	33.2	7.8	203.3
Opening balance	12.7	143.7	8.5	25.4	7.6	197.9
Additions	-	1.2	5.3	18.4	3.1	28.0
Disposals	-	(1.6)	-	(0.5)	(0.1)	(2.2)
Depreciation	-	(4.9)	(2.6)	(10.1)	(2.8)	(20.4)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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CORPORATION			GROUP	
2008	2009		2009	2008
Rm	Rm		Rm	Rm
		8.7		
		Depreciation and assets written off		
		Buildings, installations, machinery,		
7.0	12.5	equipment and vehicles	24.8	20.4
-	-	Low value assets written off on acquisition	-	0.5
7.0	12.5		24.8	20.9
		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, which resulted in a decrease in		
		depreciation of R4,5 million (2008: R3,6		
		million)		
		8.8		
		Other matters;		
		Included in the Corporation's value of		
		plant, machinery and equipment are		
		assets at contractors with a cost of R5,9		
		million (2008: R5,9 million) that are fully		
		depreciated.		
		9. INTANGIBLE ASSETS		
-	-	Patents at cost	0.4	0.2
-	-	Accumulated depreciation	(0.1)	-
-	-		0.3	0.2
		Reconciliation of carrying amount		
		Additions	-	-
		10. OTHER NON CURRENT FINANCIAL		
		ASSETS		
-	14.4	Long term receivables	14.4	30.0
-	17.8	Trade receivables	17.8	35.2
-	3.4	Less: Short term portion, shown as	3.4	5.2
		accounts receivable (note 13)		
48.7	69.3	Surplus on post-retirement medical benefit	80.0	54.3
48.7	69.3	(Note 23.3)	80.0	54.3
-	-	Arm Scor	-	-
		Arm Scor Dockyard		
48.7	83.7		94.4	84.3
		The long term receivables are non-interest		
		bearing. The repayment terms are as follows:		
		12/07/2010 R10 million		
		11/07/2011 R15 million		
		Refer to note 24 for fair value.		

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CORPORATION			GROUP	
2008	2009		2009	2008
Rm	Rm		Rm	Rm
-	-	11. INVESTMENT IN SUBSIDIARIES	-	-
236.6	180.0	Shares at cost	-	-
236.6	180.0	Loans to subsidiaries	-	-
			-	-

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

Included in the loans to subsidiaries are the loans of Armscor's property companies of which companies all income and expenses (if any) are reflected in the financial statement of the Corporation.

The carrying amount of the investments approximates its fair value.

South African subsidiaries (at 100% holdings)	Issued share capital	Shares at cost		Loans due by subsidiaries	
		2009 R	2008 R	2009 Rm	2008 Rm
ARMSCOR BUSINESS (PTY) LTD	4,000	4,000	4,000	40.9	97.5
ERASMUSRAND PROPERTIES (PTY) LTD	1	1	1	136.0	136.0
INSTITUTE FOR MARITIME TECHNOLOGY (PTY) LTD*	4	4	4	-	-
OVERBERG TOETSBAAN (PTY) LTD**	-	-	5	-	-
OOSPARK (PTY) LTD	1	1	1	1.1	1.1
SPORTRAND (PTY) LTD	1	1	1	2.0	2.0
	4,007	4,007	4,012	180.0	236.6

* Dormant Subsidiary

** Deregistered 05/05/2008

The attributable interest of the Corporation in the net loss of its subsidiaries amounted to R7,0 million (2008: loss R8,0 million)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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CORPORATION			GROUP	
2008	2009		2009	2008
Rm	Rm		Rm	Rm
		12. INVENTORIES		
-	-	Raw materials	0.4	0.4
-	-	Work in progress	3.9	4.7
0.7	1.1	Consumables	1.4	1.5
-	-	Finished goods	0.4	0.2
<u>0.7</u>	<u>1.1</u>		<u>6.1</u>	<u>6.8</u>
		The amount of inventories written off during the year is R Nil (2008: R0,5 million)		
		13. TRADE AND OTHER RECEIVABLES		
		Financial assets		
1.1	78.3	Trade receivables	99.2	71.1
-	3.4	Short term portion of long term receivables (note 10)	3.4	5.2
-	40.2	Other	58.4	34.4
1.1	34.7	Related parties	37.4	31.5
2.4	44.7	Other receivables	49.5	6.7
0.2	0.3	Personnel loans	0.3	0.4
3.1	2.5	Interest receivable on investments	2.5	3.1
18.0	52.3	Related parties other	52.4	18.0
<u>24.8</u>	<u>178.1</u>		<u>203.9</u>	<u>99.3</u>

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CORPORATION			GROUP	
2008	2009		2009	2008
Rm	Rm		Rm	Rm
		13. TRADE AND OTHER RECEIVABLES (Contd)		
		As at 31 March the aging analysis of trade receivables before allowance for doubtful debts are as follows:		
1.1	58.0	Neither past due nor impaired:	70.8	45.9
1.1	7.6	30 - 60 days	11.3	15.3
1.1	4.3	60 - 90 days	7.0	4.0
		Past due but not impaired:		
1.1	6.4	90 - 120 days	6.8	8.8
20.8	40.1	120 days	41.7	50.4
<u>25.2</u>	<u>116.4</u>	Total	<u>137.6</u>	<u>124.4</u>
		Neither past due nor impaired relates to goods and services. Management has made an assesment and they concluded that there are no indications of impairment.		
		Movement in the allowance for doubtful debts:		
14.0	24.1	Balance at the beginning of the year	53.3	40.3
-	28.8	Transfer between Armscor and Armscor Business	-	-
10.1	12.9	Impairment losses recognised on receivables	13.0	10.3
-	(27.7)	Amounts written off as uncollectable	(27.8)	-
-	-	Impairment losses reversed	(0.1)	-
-	-	Foreign currency translation adjustment	-	2.8
-	-	Amounts recovered during the year	-	(0.1)
<u>24.1</u>	<u>38.1</u>	Balance at the end of the year	<u>38.4</u>	<u>53.3</u>

Terms of 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 of 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 29.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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CORPORATION			GROUP	
2008	2009		2009	2008
Rm	Rm		Rm	Rm
		14. CASH AND SHORT TERM DEPOSITS		
4.4	19.3	Cash at banks and in hand	12.2	(0.5)
313.0	324.0	Short-term deposits	324.0	313.0
<u>317.4</u>	<u>343.3</u>		<u>336.2</u>	<u>312.5</u>
		Included in cash and short term deposits is an amount of R27,0 million (2008: R25,4 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 six months depending on the immediate cash requirements of the group, and earn interest at the respective short-term deposit rates.		
		15. SHARE CAPITAL		
		Authorised		
		• 1 000 000 000 ordinary shares of R1 each	1,000	1,000
1,000	1,000	Issued to the State		
		• 75 000 000 shares at R1 per share	75.0	75.0
<u>75.0</u>	<u>75.0</u>	Share Capital is under the control of the executive authority.		

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CORPORATION			GROUP	
2008	2009		2009	2008
Rm	Rm		Rm	Rm
		16. OTHER NON CURRENT FINANCIAL LIABILITIES		
-	11.5	Long term payables	11.5	24.0
-	14.2	Trade payables (Related party)	14.2	28.0
-	2.7	Less: Short term portion, shown as accounts payable (note 18)	2.7	4.0
		Accrued liability on post-retirement medical benefit Armscor Dockyard (Note 23.4)		
-	53.0		53.0	-
-	53.4	Total liabilities	53.4	-
-	0.4	Less: Short term portion, shown as accounts payable (note 18)	0.4	-
-	64.5		64.5	24.0
		The long term payables are non-interest bearing. The payment terms are as follows:		
		12/07/2010 R8 million		
		11/07/2011 R12 million		
		Refer to note 24 for fair value.		
		17. SHORT TERM LOAN		
		LOAN FROM SUBSIDIARY: ARMSCOR BUSINESS (PTY) LTD		
105.1	69.3	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 carrying amount of the short term loan approximates its fair value.		

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

CORPORATION			GROUP	
2008	2009		2009	2008
Rm	Rm		Rm	Rm
		18. TRADE AND OTHER PAYABLES		
		Financial liabilities		
11.6	38.8	Trade payables	42.6	32.5
4.5	55.0	Other payables	74.4	22.4
-	0.4	Short term portion of long term liabilities	0.4	-
4.5	54.6	Other	74.0	22.4
2.1	35.5	Related parties	41.6	13.1
-	2.7	Short term portion of long term liabilities	2.7	4.0
-	32.5	Trade payables	38.6	9.1
2.1	0.3	Other	0.3	-
18.2	129.3		158.6	68.0
		The table below summarises the maturity profile of the Group's financial liabilities based on undiscounted payments:		
		Current	152.4	57.2
18.2	128.6	Trade payables	77.7	34.8
11.6	73.3	Other payables	74.7	22.4
6.6	55.3	> 30 Days	2.9	6.4
-	-	Trade payables		
		> 60 Days	3.3	4.4
-	0.7	Trade payables		
18.2	129.3		158.6	68.0

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 29.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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19. PROVISIONS

	Provision for bonuses	Provision for leave	Provision for performance remuneration	Total
CORPORATION	Rm	Rm	Rm	Rm
Balance at 1 April 2007	4.7	28.2	15.3	48.2
Provisions made during the year	7.5	15.8	17.0	40.3
Provisions utilised during the year	(4.7)	(10.1)	-	(14.8)
Balance at 31 March 2008	7.5	33.9	32.3	73.7
Provisions made during the year	7.6	31.9	21.4	60.9
Provisions utilised during the year	(7.5)	(33.9)	(32.3)	(73.7)
Balance at 31 March 2009	7.6	31.9	21.4	60.9
GROUP	Rm	Rm	Rm	Rm
Balance at 1 April 2007	6.6	39.1	22.2	67.9
Provisions made during the year	14.2	19.1	24.4	57.7
Provisions utilised during the year	(11.2)	(14.6)	-	(25.8)
Balance at 31 March 2008	9.6	43.6	46.6	99.8
Provisions made during the year	12.6	33.8	26.7	73.1
Provisions utilised during the year	(12.5)	(35.7)	(44.8)	(93.0)
Balance at 31 March 2009	9.7	41.7	28.5	79.9

Performance remuneration for 2008/2009 will be paid after performance evaluation.

CORPORATE			GROUP	
2008 Rm	2009 Rm		2009 Rm	2008 Rm
		20. CONTRACTUAL LIABILITIES		
		Projected outstanding commitments in respect of orders placed for expected deliveries	377.2	483.8
		Contractual commitments which may arise out of these contracts are covered in full by means of financial authorisations. In other cases cover is obtained by means of back-to-back orders amounting to R327,6 million (2008: R425,0 million)		
		21. CAPITAL COMMITMENTS		
		Capital expenditure approved but not yet contracted for plant and equipment	15.3	9.0
483.8	377.2			
-	-			

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

22. CONTINGENT LIABILITIES

22.1 Guarantees

- 22.1.1 Bank guarantees have been issued for Armscor Business in favour of a local contractor amounting to R1,1 million (2008: R1,1 million) in respect of marketing transactions and for Armscor to a foreign contractor amounting to USD 2,3 million (2008: USD 2,1 million) for an advance payment received.
- 22.1.2 Bank guarantees have been issued on behalf of Armscor Business in favour of the South African Revenue Services: Customs and Excise and other creditors amounting to R11,3 million (2008: R13,5 million) with regard to local guarantees.

22.2 Other

At 31 March 2009 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 19 June 2008. No new issues or risks were reported at the meeting held and it was reported that the current measures in place is sufficient to manage the range in compliance with the Act.

22.3 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 2009

Future minimum rentals payable under non-cancellable operating leases as at 31 March 2009 are as follows:

CORPORATION			GROUP	
2008 Rm	2009 Rm		2009 Rm	2008 Rm
0.3	0.1	Within one year	1.2	1.7
0.1	0.1	After one year but not more than five years	3.9	4.5
-	-	After five years	6.1	8.8
<u>0.4</u>	<u>0.2</u>		<u>11.2</u>	<u>15.0</u>

23. RETIREMENT BENEFITS

23.1 Armscor Defined Contribution Pension Fund and Provident Fund

23.1.1 Pension and provident schemes

The group contributes towards and operates the Armscor Defined Contribution Pension Fund and Provident Fund, which offer benefits based on the contributions by and made on behalf of every member as well as investment yields. At the time of establishment of the Armscor Defined Contribution Pension Fund, Armscor guaranteed pensioners that were transferred from the previous pension fund to the current pension fund to receive a pension at least equal to the pension received in terms of the previous fund. Armscor's liability in this regard for the remaining 18 members is Nil (2008: Nil) as the pensioners account in the pension fund is sufficiently funded.

CORPORATION			GROUP	
2008 Rm	2009 Rm		2009 Rm	2008 Rm
21.4	25.2	The amount of contributions to the above scheme	34.4	31.1
<u>21.4</u>	<u>25.2</u>	The total amount expended during the year	<u>34.4</u>	<u>31.1</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

23.2 Government Employees Pension Fund

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	
2008	2009		2009	2008
Rm	Rm		Rm	Rm
		The amount of contributions to the above scheme		
3.0	6.3		6.3	3.0
		The total amount expended during the year		
3.0	6.3		6.3	3.0

23.3 Post-retirement medical benefits (Excluding Armscor Dockyard Personnel)

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. In the 2006/2007 valuation the closing plan assets were divided between the two units in the same proportion as the opening plan assets. In the 2007/2008 valuation closing plan assets were divided in the same proportion as the closing liabilities.

The IAS19 (AC116) valuation of the group's post-employment benefits was carried out at 31 March 2009. Based on the latest projection performed at 31 March 2009 the present value of the obligation is R298,0 million (2008: R262,0 million) and the fair value of plan assets is R316,3 million (2008: R384,6 million).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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CORPORATION	2009	2008	2007	2006	2005
	Rm	Rm	Rm	Rm	Rm
Present value of funded obligations	254.1	216.2	194.3	162.4	117.5
Fair value of plan assets	(269.7)	(317.4)	(267.9)	(209.5)	(148.8)
Present value of plan assets in excess of obligations	(15.6)	(101.2)	(73.6)	(47.1)	(31.3)
Unrecognised transitional liability	-	-	-	-	(5.1)
Unrecognised actuarial gains/(losses)	(56.7)	48.8	47.3	34.8	30.8
Unrecognised past service gains	3.0	3.7	4.4	5.1	5.8
Net asset in balance sheet	(69.3)	(48.7)	(21.9)	(7.2)	0.2

GROUP	Rm	Rm	Rm	Rm	Rm
Present value of funded obligations	298.0	262.0	239.7	199.4	148.3
Fair value of plan assets	(316.3)	(384.6)	(340.0)	(263.2)	(184.3)
Present value of plan assets in excess of obligations	(18.3)	(122.6)	(100.3)	(63.8)	(36.0)
Unrecognised transitional liability	-	-	-	-	(6.0)
Unrecognised actuarial gains/(losses)	(65.7)	63.3	60.8	43.7	34.2
Unrecognised past service gains	4.0	5.0	6.0	7.0	8.0
Net asset in balance sheet	(80.0)	(54.3)	(33.5)	(13.1)	0.2

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

	2009	2008
	Rm	Rm
Opening balance	262.0	239.8
Current service cost (includes interest to year end)	11.1	9.8
Interest cost	24.0	18.3
Expected employer benefit payments	(7.0)	(6.0)
Expected closing balance	290.1	261.9
Actuarial (gain)/loss	7.9	0.1
Actual closing balance	298.0	262.0

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

CORPORATION			GROUP	
2008	2009		2009	2008
Rm	Rm		Rm	Rm
		Reconciliation of net liability in the balance sheet and amounts recognised in the income statement		
(21.9)	(48.7)	Opening balance	(54.3)	(33.5)
(15.8)	(7.3)	Expense recognised in employee remuneration costs	(7.3)	(4.4)
(5.6)	(6.8)	Employer benefit payments	(7.1)	(5.9)
(10.7)	(12.6)	Employer prefunding contributions	(17.4)	(15.8)
5.3	6.1	Payments from plan assets	6.1	5.3
<u>(48.7)</u>	<u>(69.3)</u>	Closing balance	<u>(80.0)</u>	<u>(54.3)</u>
		Net benefit expense (recognised in employee remuneration costs)		
6.4	7.5	Current service cost	11.1	9.8
14.8	19.8	Interest cost	24.0	18.3
(23.4)	(32.8)	Expected return on plan assets	(39.9)	(29.7)
(1.4)	(1.1)	Actuarial (gain) recognised	(1.5)	(1.8)
(0.7)	(0.7)	Past service cost recognised	(1.0)	(1.0)
4.5	-	Transfer of liability from Armscor to Armscor Business	-	-
(6.7)	-	Transfer of assets iro liability transferred from Armscor to Armscor Business	-	-
(9.3)	-	Rebalancing of assets between Armscor and Armscor Business	-	-
<u>(15.8)</u>	<u>(7.3)</u>		<u>(7.3)</u>	<u>(4.4)</u>
		Reconciliation of change in plan assets		
267.9	317.4	Fair value of assets at beginning of year	384.6	340.0
49.1	(41.4)	Actual return on assets	(64.1)	40.4
10.7	12.6	Contributions	17.4	15.8
(5.3)	(6.3)	Benefits paid	(6.3)	(5.3)
(5.0)	(12.6)	Other expenses	(15.3)	(6.3)
<u>317.4</u>	<u>269.7</u>	Fair value of assets at end of year	<u>316.3</u>	<u>384.6</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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The main actuarial assumptions are:

	2009	2008
Discount rate	9,00%	9,25%
Health care cost inflation	7,75%	8,25%
Average retirement age	60	60
Expected return on plan assets	10,00%	10,25%

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 7,75%	-1%	+1%
Accrued Liability 31 March 2009 (R'Million)	298.073	253.615	354.464
% Change	-	-14,9%	+18,9%
Current Service Cost + Interest Cost 2009/10 (R'Million)	38.777	32.156	47.393
% Change	-	-17,1%	+22,2%
Sensitivity Results from Previous Valuation	Central Assumption 6,75%	-1%	+1%
Current Service Cost + Interest Cost 2008/9 (R'Million)	28.586	23.430	35.357
% Change	-	-18,0%	+23,7%

23.4 Post-retirement medical benefits for Armscor Dockyard Personnel

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 2009. This actuarial valuation of the employer's liability as at 31 March 2009 arises as a result of post-employment health care benefits enjoyed by former SA Naval Dockyard employees. Based on the first projection performed at 31 March 2009 the accrued liability in excess of the plan assets is R53,4 million.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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CORPORATION			GROUP	
2008	2009		2009	2008
Rm	Rm		Rm	Rm
		The accrued liability in excess of plan assets as at 31 March 2009 is summarised below:		
-	53.4	Accrued liability	53.4	-
-	-	Plan assets	-	-
-	53.4	Accrued liability in excess of plan assets	53.4	-
-	11.4	Less: Cash received	11.4	-
-	42.0	Net liability	42.0	-
		A projection of results of the valuation as at 31 March 2009 to 31 March 2010 is set out below		
-	53.4	Accrued liability as at 31 March 2009	53.4	-
-	4.8	Interest cost	4.8	-
-	1.9	Service cost (including interest to year end)	1.9	-
-	(0.5)	Expected employer benefit payments	(0.5)	-
-	59.6	Projected accrued liability as at 31 March 2010	59.6	-

The main actuarial assumptions are:

	2009	2008
Discount rate	9,00%	-
Health care cost inflation	7,75%	-
CPI inflation	5,75%	-
Expected retirement age	63	-
Membership discontinued at Retirement or Death-in-Service	0%	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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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 7,75%	-1%	+1%
Accrued Liability 31 March 2009 (R'Million)	53.425	43.884	65.745
% Change	-	-17,9%	+23,1%
Current Service Cost + Interest Cost 2009/10 (R'Million)	6.649	5.415	8.254
% Change	-	-18,6%	+24,1%

24. 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

24.1 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 following table demonstrates the sensitivity to a possible change in USD exchange rate, with all other variables held constant, of the Group's profit due to changes in fair value of monetary assets and liabilities.

24.2 Interest Rate Management

The group's exposure to the risk of changes in market interest rates relates primarily to the group's short term loan and cash and cash equivalents. In the ordinary course of business, the group receives cash from the transfer payment to fund its operations as well as to fund working capital and capital expenditure requirements. This cash is managed to ensure surplus funds are invested in a manner to achieve maximum returns while minimising risk.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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24.3 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.

24.4 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 Company has no overdraft facility. No additional banking facilities or reserve borrowings are considered necessary.

24.5 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 2009. 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.

CORPORATION			GROUP	
2008	2009		2009	2008
Rm	Rm		Rm	Rm
18.2	(129.3)	Trade and other payables	(158.6)	(68.0)
(317.4)	(343.3)	Cash and short term deposits	(336.2)	(312.5)

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24.6 Fair Values (Group)

	Carrying amount		Fair value	
	2009	2008	2009	2008
	Rm	Rm	Rm	Rm
Financial liability				
Other non current financial assets				
- Trade receivables	25.0	30.0	14.4	17.1
- Surplus on post retirement medical benefit	80.0	54.3	80.0	54.3
Trade and other receivables	203.9	99.3	203.9	99.3
Cash allocated to insurance reserve	27.0	25.4	27.0	25.4
Cash and cash equivalents	309.2	287.1	309.2	287.1
Financial liability				
Current liabilities	(238.5)	(167.8)	(238.5)	(167.8)
Other non current financial liabilities				
- Related party payables	(20.0)	(24.0)	(11.5)	(13.7)
- Liability on post retirement medical benefit	(53.0)	-	(53.0)	-

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 11,32% (2008: 13,8%). The amounts are payable within 3 years.

24.7 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
2009	± 100	± R3,5 million
2008	± 50	± R1,5 million

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

25. INCOME TAX

The Corporation and its subsidiaries are exempted from income tax in terms of legislation.

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

26.1 An amount of R112 189 (2008: R40 134) relating to unrecoverable debts was written off during the year

26.2 Fruitless and wasteful expenditure of an immaterial amount of R95 869 (2008: R66) was incurred as a result of penalties levied on late deliveries. Off this an amount of R81 690 was recovered after balance sheet date.

27. COMPARATIVE FIGURES

Comparative figures have been reclassified where necessary.

27.1 Other non-current financial assets

The surplus on the medical benefit fund was reclassified from trade receivables to non current financial assets. The amount reclassified was R54,3 million for the Group. (Refer to note 10)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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28. DIRECTOR'S/EXECUTIVE MEMBERS' EMOLUMENTS

		Fees	Basic salary	Other benefits	Allowances	Retirement and other contributions	Total
2009	Notes	R	R	13 R	14 R	15 R	R

Directors' Emoluments

Executive Directors

JG Grobler	1	-	819,953	179,466	101,796	157,125	1,258,340
HS Thomo		-	1,449,301	1,391,395	187,680	240,994	3,269,370
Subtotal		-	2,269,254	1,570,861	289,476	398,119	4,527,710

Non-Executive Directors

EL Borole	4	113,388	-	-	-	-	113,388
N Medupe	4	100,116	-	-	-	-	100,116
RP Meyer		110,826	-	-	-	-	110,826
PS Molefe (Dr)	2	232,380	-	-	-	-	232,380
MB Molemela	3	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 DIRECTORS' EMOLUMENTS

1,003,276	2,269,254	1,570,861	289,476	398,119	5,530,986
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Management Board Emoluments

Executive Members

NRM Borotho		-	1,175,490	228,264	104,028	138,793	1,646,575
TT Goduka		-	871,289	128,725	133,932	170,093	1,304,039
MM Matibe		-	738,888	162,019	117,180	145,905	1,163,992
JS Mkwanazi		-	1,179,841	271,629	87,456	201,908	1,740,834
TN Msomi	5	-	834,504	162,724	79,932	144,777	1,221,937
IF Potgieter(Dr)		-	677,664	154,632	104,580	134,081	1,070,957
TOTAL		-	5,477,676	1,107,993	627,108	935,557	8,148,334

Directors' Emoluments

Armcor Business (Pty)
Ltd

E Hurter		-	894,349	198,188	96,780	162,588	1,351,905
TOTAL		-	894,349	198,188	96,780	162,588	1,351,905

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

28. DIRECTOR'S/EXECUTIVE MEMBERS' EMOLUMENTS (CONTINUED)

		Fees	Basic salary	Other benefits	Allowances	Retirement and other contributions	Total
2008	Notes	R	R	13 R	14 R	15 R	R
Directors' Emoluments							
Executive Director							
CJ Hoffmann	6	-	564,674	59,568	77,690	72,802	774,734
HS Thomo		-	1,217,136	108,624	187,680	215,296	1,728,736
Subtotal		-	1,781,810	168,192	265,370	288,098	2,503,470
Non-Executive Directors							
CV Gamede	7	166,645	-	-	-	-	166,645
AS Human	7	131,338	-	-	-	-	131,338
RP Meyer		90,544	-	-	-	-	90,544
PS Molefe (Dr)		228,934	-	-	-	-	228,934
GN Ramaremsa	7	126,829	-	-	-	-	126,829
P Riba	7	161,841	-	-	-	-	161,841
Subtotal		906,131	-	-	-	-	906,131
TOTAL DIRECTORS' EMOLUMENTS		906,131	1,781,810	168,192	265,370	288,098	3,409,601
Management Board Emoluments							
Executive Members							
NRM Borotho		-	874,980	74,682	104,028	117,116	1,170,806
TT Goduka		-	565,995	53,883	133,932	134,923	888,733
JG Grobler	1	-	186,484	-	32,860	44,654	263,998
X Magojo	8	-	570,917	66,321	70,749	87,561	795,548
CN Magwaza	9	-	200,568	35,861	37,705	47,511	321,645
MM Matibe		-	599,394	48,406	117,180	129,749	894,729
JS Mkwanzazi		-	920,292	78,021	87,456	171,347	1,257,116
TN Msomi		-	739,029	57,863	79,932	128,952	1,005,776
IF Potgieter (Dr)	10	-	124,884	-	25,395	30,926	181,205
TOTAL		-	4,782,543	415,037	689,237	892,739	6,779,556
Directors' Emoluments							
Arm Scor Business (Pty) Ltd							
JAJ De Necker (Dr)	11	-	580,345	74,742	98,117	130,387	883,591
E Hurter	12	-	642,243	56,958	96,780	140,301	936,282
TOTAL		-	1,222,588	131,700	194,897	270,688	1,819,873

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

Notes applicable to note 28

1. Acting 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 for a three year period as Chairman of the Board of Directors which expired on 30 September 2007. Re-appointed as Chairman of the Board of Directors.
3. Appointed as Director from 1 May 2008 and resigned from Armscor with effect 31 May 2008.
4. Appointed as Director from 1 May 2008.
5. Resigned from Armscor with effect 31 March 2009.
6. Retired on 30 September 2007. Contracted in for a further two months, ending 30 November 2007.
7. Contracts expired 31 March 2008.
8. Resigned from Armscor with effect 31 December 2007.
9. Appointed on 1 November 2007 as Management Board Member (Acting General Manager Corporate Affairs) to 14 April 2008.
10. Appointed from 14 January 2008 as Management Board Member (Acting General Manager Human Resources).
11. Deceased 16 January 2008.
12. Acting as General Manager Armscor Business (Pty) Ltd from 5 November 2007.
13. Include bonus and performance related payment and restraint of trade payment.
14. Include sums paid by way of allowances ie. motor and cellphone allowances.
15. Include contributions made to the pension fund; medical benefit fund; medical aid; unemployment insurance fund; funeral funds.
16. No emoluments are paid to Armscor Business ex-officio Directors: Mr HS Thomo and JG Grobler.

Share options

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

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 2009

29. 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 its mandate, Armscor received a Government grant of R479,0 million (2008: R415,6 million) from the State through the Department of Defence (DOD).

Investment in subsidiaries and loans from subsidiaries as detailed below are set out in notes 11 and 16 of the financial statements.

SUBSIDIARIES		2009	2008
		Rm	Rm
Armscor Business (Pty) Ltd (Loan from)		40.9	97.5
Armscor Business (Pty) Ltd (Loan to)		(69.2)	(105.1)
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
Institute for Maritime Technology (Pty) Ltd (Loan from)		(4)	(4)
Overberg Toetsbaan (Pty) Ltd (Loan from)		-	(5)

Unsecured non interest bearing loans with no fixed repayment conditions. The shareholder has subordinated its right to claim repayment of its loan until such time as the assets of the company, fairly valued, exceeds its 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	
	2009	2008	2009	2008	2009	2008	2009	2008
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Armscor Business	14.5	23.9	33.7	66.2	0.7	-	-	-
Department of Defence	1,177.9	5.6	29.3	-	55.0	11.7	43.9	0.5
Other related party transactions carried out by the group:								
State controlled entities								
Major national public entities (Schedule 2 and 3 public entities)	151.7	138.1	257.4	1,385.1	21.3	15.2	1.2	3.8
National Government	32.8	32.9	-	1.0	11.3	11.5	3.2	1.6

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

29. RELATED-PARTY DISCLOSURES (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 2009, the group has made provision for doubtful debts of R37,1 million (2008: R24,1 million) relating to amounts owed by related parties.

Included in the above figures are payments of R5,8 million (2008: R7,8 million) in respect of a service level agreement paid by Armscor Business to Armscor, an amount of R33,7 million (2008: R38,7 million) paid by Armscor to Armscor Business for subsidiary support and rent of R1,9 million (2008: R2,8 million) paid by Armscor Business to Armscor.

In accordance with Armscor's mandate, acquisition was undertaken on behalf of the Department of Defence. These transactions are set out in note 7 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	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm	2009 Rm	2008 Rm	2009 Rm	2008 Rm
Special and General Defence Account	112.8	721.7	8.9	9.4	1.6	11.1	4.8	31.2
DMD (Stock Sales)	-	-	-	13.4	-	-	-	-

Directors

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

Two of Armscor's Executive Directors and one Armscor Management Board Member are ex-officio directors of the Armscor Business Board of Directors. One Armscor Executive Director is also ex-officio director on the Boards of Erasmusrand Eiendomme (Pty) Limited, Sportrand (Pty) Limited and Oospark (Pty) Limited.

Key management personnel

Information on the remuneration of all key management personnel is disclosed in note 28.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

30. BUSINESS RESTRUCTURING

Restructuring in 2008/2009

Having received the strategic direction of Armscor and Armscor Business, as presented to the Armscor Board of Directors and the Minister of Defence, the functions of Defence Support [Defence Matériel (DMD), AB Logistics (ABL) and Armscor Defence Asset Management Centre (ADAC)] have been transferred to Armscor as part of the Armscor Corporate function.

The fair value of the identifiable assets and liabilities of the business units as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were:

	Fair value recognised on acquisition	Previous carrying value
	Rm	Rm
Property, plant and equipment	3.9	3.9
Cash and cash equivalents	(0.3)	(0.3)
Trade receivables	76.8	76.8
Loan account	23.8	23.8
	<u>104.2</u>	<u>104.2</u>
Trade payables	(44.1)	(44.1)
Provisions	(3.5)	(3.5)
Net assets	<u>56.6</u>	<u>56.6</u>

The restructuring will have an effect on the Armscor comparative figures but not on those of the Armscor Group. The effect on Armscor income statement is as follows:

	2009 Rm	2008 Rm
Revenue	1,336.6	825.4
Cost of sales	(1,304.7)	(791.5)
Gross margin	<u>31.9</u>	<u>33.9</u>
Net operating expenditure	(38.5)	(46.3)
Operating (deficit)	<u>(6.6)</u>	<u>(12.4)</u>

ABBREVIATIONS

AAD	Africa Aerospace & Defence
ABL	Armscor Business Logistics
AMD	Aerospace, Maritime & Defence Industries
BSC	Balanced Score Card
C2	Command & Control
CAASA	Commercial Aviation Association of Southern Africa Trust
CAD	Cybicom Atlas Defence
CALMIS	Computer Aided Logistic Management Information System
CCMA	Commission for Conciliation, Mediation & Arbitration
CEO	Chief Executive Officer
CFD	Computational Fluid Dynamic
CFO	Chief Financial Officer
COQ2	Combat Officers Qualifying Part 2
COTY	Car of the Year
CRM	Combat Readiness Modelling
CVED	Combined Vehicle Electric Drive
DEPS	Defence Equipment & Personnel Support
DLS	Denel Land Systems
eNATIS	National Traffic Information System
FEM	Finite Element Method
GAAP	General Accepted Accounting Practice
HIRA	Hazard Identification & Risk Assessments
HPLC	High Performance Liquid Chromatograph
HUMS	Health & Usage Monitoring Systems
IAS	International Accounting Statements
IDEX	International Defence Exhibition
ILSMS	Integrated Logistic Support Management Services
IMP	Integrated Maritime Picture
ITB	Integration Test Bench
MOU	Memorandum of Understanding
NBC	Nuclear, Biological, Chemical
NEHAWU	National, Education & Allied Workers Union
OT & E	Operational Test & Evaluation
PAA	Public Audit Act
PDR	Preliminary Design Review
SSC	Systems Support Centre
VAT	Value Added Tax






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