



ARMSCOR

Armaments Corporation of South Africa SOC Ltd



ANNUAL REPORT 2020|21



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A large white ship with a red hull is positioned in a dry dock. To the right, a large industrial building with multiple arched windows and a crane are visible. The scene is set against a backdrop of hills under a clear blue sky. The image is overlaid with a semi-transparent blue rectangle and several orange diagonal lines.

SECTION 01

WHO WE ARE

1.1 COMPANY DETAILS

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



1.2 CHAIRPERSON'S REPORT

DR PD Dexter

CHAIRPERSON OF THE BOARD

The Minister of Defence and Military Veterans, Ms Nosiviwe Mapisa-Nqakula, appointed the new Armscor Board of Directors in December 2020. I would, therefore, like to start by expressing the newly appointed Board's appreciation to Minister Mapisa-Nqakula for her confidence in our ability to take over the baton. We endeavour to do our best in ensuring that Armscor delivers on its mandate as enshrined in the Armscor Act (Act No. 51 of 2003).

The new Armscor Board hit the ground running in January 2021. We started at the height of the COVID-19 pandemic when the country and the world at large was trying to make sense of the pandemic and its impact on humanity.

We held induction and strategic review sessions that led to the development of strategies aimed at mitigating the negative impact of the declining defence budget and at repositioning Armscor as a sustainable organisation:

- The Commercialisation Strategy focuses on Armscor as a corporate entity with an intent of conducting business beyond its traditional

offerings and prioritising its products and services from the current status to maturity, thus making them attractive to the market.

- The Africa Focused Strategy seeks to leverage on the opportunities that are emerging on the continent – in line with the organisation's capabilities – as trends and significant developments in Africa seem promising and offer prospects for the defence industry to thrive.
- The Partnership Strategy focuses on developing partnerships in the defence sector, both locally and internationally, and in the security cluster by positioning Armscor's capabilities, leveraging on expertise and relationships formed in pursuing strategic initiatives that will generate revenue for both Armscor and the defence sector at large.

Due to the impact of the pandemic and the reduced Department of Defence capital budget, Armscor needs to think of and implement innovative ways of remaining sustainable. The Board therefore approved various proposals submitted by the executive management team, namely the introduction of voluntary severance

packages, the streamlining of the organisation and the refocussing of various departments in order to implement the said strategies.

The reduced capital budget has had a negative impact on Armscor's ability to fully fulfil its mandate of supporting the defence industry. The pending decision on Denel is unfortunate as this negatively affects our ability to protect the country's strategic and sovereign capabilities and intellectual property that are widely sought after by the rest of the world.

The Armscor Board is aware of the socio-economic challenges faced by numerous state-owned entities and of the fact that these challenges have been exacerbated by the pandemic. We are grateful that during the 2020/21 financial year, Armscor under the leadership of CEO Solomzi Mbada, could still ensure job security and the wellbeing of its employees.

The Board therefore places on record its gratitude to the management and staff of the Corporation for

their dedication and hard work in the past period. The exciting new ventures which the Corporation will be undertaking in the near future, are expected to add value to the SANDF, Armscor and the country as a whole.

Lastly, we would like to thank the Minister for providing leadership, advice and direction. We would also like to thank the Secretary for Defence for her support in the implementation of our plans. We will continue with such implementation and remain committed to providing guidance and oversight to Armscor to ensure its future.

We look forward to the next financial year and to record growth, development and success for Armscor.



DR PHILLIP DEXTER
CHAIRPERSON



1.3 CHIEF EXECUTIVE OFFICER'S REPORT

ADV. SP Mbada

Chief Executive officer

I am pleased to present the Armscor Annual Report for the year ending 31 March 2021. The reporting period was a particularly challenging one due to the COVID-19 pandemic. The knock-on effect included, but not limited to, workplace disruptions, business disruptions and cancellations as well as realignment of budgets.

The pandemic required us to refocus and adapt both at a social and professional level. Armscor had to be agile in adjusting the way we do business in an effort to curb the spread of the disease while being compassionate towards our employees. The use of technology in accelerating our business outputs was amplified as most employees had to work remotely. Looking back, this experience demonstrates that we are capable of adapting to the ever-changing environmental conditions. We will certainly use the experience of 2020/21 financial year as we forge ahead.

Despite all of the challenges, Armscor remains committed to meet South Africa's defence matériel requirements effectively, efficiently and economically. During the reporting period, the Corporation was able to achieve its set targets as outlined in the Corporate Plan. We are particularly pleased that Armscor was awarded with a satisfactory audit from the office of the Auditor-General of South Africa (AGSA).

Performance review - highlights and challenges

The Corporation met most of its corporate goals in line with the Corporate Plan, but also exceeded some of them. In accordance with the service level agreement, all requirements and orders were fulfilled. All the strategic capabilities – Acquisition, Research and Development and Dockyard – were able to meet their service level outputs. The details of these achievements are covered extensively throughout this annual report.

The new Board, appointed in December 2020 hit the ground running as we were winding down the financial year. The Board facilitated a strategic session to review the Corporation's strategic objectives, and to ensure that Armscor delivered on its mandate. Some of the outputs are being implemented, with revenue generation as a key focus area to safeguard the sustainability of the Corporation.

Armscor is committed to the National Development Agenda and thus provided bursaries to 34 students to study at different institutions of higher learning. The majority of students are in the engineering and science fields. A further 40 learners were placed on the Talent Development Programme within Armscor.

The programme aims to develop a pool of readily available talent and technical expertise to meet required skills for our current and future business strategy. These graduates were recruited from our bursary pools and were provided with opportunities to work on advanced technologies at Armscor and with other partners in the defence industry. The long-term strategy is to transform Armscor to a more racially and gender representative Corporation while striving to accommodate people with disabilities.

The Corporation will continue to look for partnership opportunities with government and industry, leveraging on its intellectual property and assets through research and development technologies. Armscor will revisit its efforts to sweat its own properties.

Armscor was appointed as a service provider to the United Nations to provide travel management services for a three-year period. The United Nations is represented in South Africa by its subsidiary, UNICEF.

Through its corporate social investment, Armscor continues making meaningful contributions in our communities. Much has been done in education; we have assisted learners from previously disadvantaged communities to improve their performance and results in Science, Technology, Engineering and Mathematics. During the reporting period, the Corporation supported projects across the country with the focus on human capital development, socio-economic development and social relief initiatives.

Government and particularly the DOD's ability to perform its duties, is directly linked to Armscor and the defence industry's ability to deliver its services and protect our sovereignty. Armscor is thus proud of the achievements reached with the support of our stakeholders and the establishment of the Defence Industry Fund. We support the development of the Defence Sector Charter and Codes. The Ministerial appointment of the Defence Sector Council in February 2021 which will administer enterprise and supplier development as well as ensure compliance to the charter and codes, is greatly welcomed.

COVID-19 impact

The COVID-19 pandemic is set to have serious global and local economic repercussions that will further damage the already fragile pre-COVID South African economy. Availability of government resources will be far more constrained and likely to impact on Armscor's performance.

Looking ahead, the global defence sector is expected to remain stable in 2021 as many countries have not reduced their military budgets due to geopolitical tensions that have intensified amid the global pandemic. Conversely, the South African defence industry has, and will continue, to face financial constraints and it is in this regard that the Corporation must assume the critical role of nurturing the industry through this difficult period. The foregoing will focus, amongst others, on strategic business partnering with key stakeholders, robust shareholder and client engagement in order to unlock identified alternative revenue generation initiatives and sourcing external funding to revive the industry's order book in order to generate revenue for Armscor.

International exhibitions are recognised as one of the best channels to promote South African products and services. However, due to the COVID-19 pandemic, most of the international events were cancelled or deferred. The Africa Aerospace and Defence (AAD) exhibition, which was scheduled to take place in September 2020 was deferred to 2022. This was a huge loss to the defence industry as the exhibition is used to promote South African capabilities. It also normally serves as a platform where strategic partnerships and business opportunities are concluded.

In spite of severe delays in deliveries and disruption of the execution of contracts by the industry due to the COVID-19 lockdowns and restrictions, a number of projects and sub-projects were successfully completed and new capabilities were delivered and taken into operation by the SANDF.

Challenges

The reduction in the capital budget is already having an impact, not only on the local defence industry and on the maintenance of strategic and sovereign capabilities within the industry, but also on the operational readiness of the SANDF. This is a challenge which Armscor is mitigating by focusing on alternative revenue generating activities.

The worsening financial situation at Denel, caused by an inability to honour payments to subcontractors and suppliers has resulted in the Corporation not receiving required subsystems and components, as well as a significant loss of capability due to resignations of key personnel. This scenario resulted in minimal performance by Denel against virtually all requirements and projects contracted to them.

Armcor's performance and readiness in meeting the SANDF's requirements was materially affected by this situation. At the end of the 2020/21 financial year, 41,29% of the total value of contracts funded by the DOD for the year, comprised orders placed on Denel by Armcor.

We appeal to all key role players especially government to continue engaging with the intention of finding a workable solution on this untenable situation at Denel.

Acknowledgements

My sincere appreciation is extended to the Honourable Minister, Ms Nosiviwe Mapisa-Nqakula and Deputy Minister, Mr Thabang Makwetla, for the guidance and support provided throughout the year. A special gratitude to the Secretary for Defence, Ambassador Sonto Kudjoe, late Dr Sam Gulube and the outgoing Chief of the SANDF, General Solly Shoke, and dedicated team for their invaluable support. Our gratitude goes to the officials of the DOD for their support to Armcor during the reporting period. We assure them of our support and commitment.

The Portfolio Committee on Defence and Military Veterans has contributed to the successful execution of our mandate, through their guidance and the robust oversight role, which is appreciated.

It is a pleasure to have served Armcor's primary client namely the DOD, and we thank them for their support and confidence in Armcor as a trusted service provider. Armcor will continue to provide the necessary support within the budgetary constraints when called upon to do so. To all other stakeholders, I wish to express appreciation for their support and assistance in assisting Armcor to render an excellent service to all its clients.

We are grateful to the defence-related industry under the stewardship of the South African Aerospace Maritime and Defence Industry Association that continue to contribute effectively to the development of the Corporation through ongoing engagements. To all other local and international industry collaborators, we thank them for their partnership and investment initiatives.

To the Armcor Board of Directors, your guidance and oversight in steering this Corporation and the fulfilment of its mandate with professionalism, dedication and integrity is applauded.

We thank the Executive Committee, organised labour and all employees for their contribution and positive engagements towards the success of the Corporation. We laud the ethos that is evident at all levels of the Corporation's business operations. Success would not be recorded during the reporting period, without their contribution.

Despite the economic challenges, Armcor will adjust its sails to be responsive to the needs of clients as a reliable service provider. We are prepared and look forward to turning the challenges of the future into opportunities.

The Armcor name and flag will continue to fly proudly.



ADV. SP MBADA
CHIEF EXECUTIVE OFFICER

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

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

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

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

the Group and to ensure that all transactions are duly authorised.

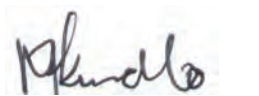
Against this background the directors of Armscor accept responsibility for the financial statements. The information on pages 32 - 43, 119 - 196 and 99 to 109 was approved by the Armscor Board of Directors on 15 September 2021.



DR PD DEXTER
CHAIRPERSON OF THE BOARD

CERTIFICATE

In terms of section 88 (2) (e) of the Companies Act (Act No. 71 of 2008 (as amended)), (the Act), it is hereby certified that for the year ended 31 March 2021, the Armaments Corporation of South Africa SOC Limited lodged with the Commissioner all required returns and notices in terms of the Act and that all such returns and notices appear to be true, correct and up to date.



MS FM KUMALO
COMPANY SECRETARY

1.5 STRATEGIC OVERVIEW

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

Armcor is a State-Owned Company (SOC) as contemplated in the Companies Act (Act No. 71 of 2008).

The Minister of Defence and Military Veterans is the sole shareholder and the Executive Authority of Armcor.

Armcor is governed and controlled by a Board of Directors, which reports to the Minister of Defence and Military Veterans.

ABOUT ARMSCOR

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

The Corporation provides turnkey defence solutions and its research and development focuses on

producing cutting-edge technology products. Armcor prides itself on maintaining high-quality international standards through rigorous testing and evaluation processes on all its technology management projects.

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

VISION

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

MISSION

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

VALUES

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

Figure 1: Armscor's Value System



Armscor aims to deliver on its mandate on time and in time every time, in order to support peacekeeping operations in Africa and deliver defence and defence related solutions effectively and efficiently.

The Corporation endeavours to explore new defence pathways and drive innovation to develop cutting-edge solutions for peace and security in Africa while creating a defence environment that is inclusive of small, medium and micro enterprises' (SMMEs) participation.

Armscor aims to harness the defence sector to drive economic growth and unlock Africa's defence growth potential through partnerships with other African countries.

ARMSCOR'S MANDATE

Armscor was established in terms of the Armaments Corporation of South Africa Limited Act (Act No. 51 of 2003), as amended (called the Armscor Act). It is therefore a State-Owned Company as contemplated in

the Companies Act (Act No. 71 of 2008). Furthermore, it is listed as a schedule 2 public entity in terms of the Public Finance Management Act (Act No. 1 of 1999), as amended (the PFMA). It is further regulated by the regulations issued in terms of the PFMA and of the Companies Act.

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

The objectives of Armscor are to meet:

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

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

Corporate Profile

The Armscor Act provides that

(1) The Corporation must:

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

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

- exploit such commercial opportunities as may arise out of Armscor's duty to acquire defence matériel or to manage technology projects

- procure commercial matériel on behalf of any organ of state, at the request of the organ of state in question.

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

ARMSCOR'S CONTRIBUTION TO NATIONAL IMPERATIVES OF GOVERNMENT

National Development Plan, Vision 2030

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

Furthermore, the NDP, Vision 2030 and its related policies provide a national framework that will inform the envisaged contribution by national departments to the objectives of the NDP, Vision 2030. Figure 2 indicates the aspects that form the cornerstone of the NDP, Vision 2030 to which the defence portfolio, where relevant, will contribute.

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

- sharpening South Africa's innovative edge by continuing its contribution to global scientific and technological advancement

- implementing greater investment in research and development and better use of existing resources
 - facilitating innovation and enhanced co-operation between public service, technology institutions
 - committing to procurement approaches that stimulate domestic industry and job creation
 - procuring from and supporting SMMEs, black-owned and black-managed enterprises, and female-led enterprises, the youth, and military veterans.
 - a sense of urgency in delivering effective and efficient services to Armscor's clients
 - positive relations between Armscor and its stakeholders
 - providing a strategic pull towards which Armscor's employees can aspire
 - a well-founded partnership between Armscor and the industry
 - the need to meet policy and other directives of the shareholder
 - the drive to extract commercial value from Armscor's role as a technology and acquisition expert in Africa and beyond.
- The Armscor Strategy is, therefore, informed by:

Figure 2: Aspects that form the cornerstone of the NDP, Vision 2030



Sustainable Development Goals

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

- Armscor, by virtue of its legislative mandate and inherent defence capabilities, will indirectly support SDG 16. The Corporation aims to “promote peaceful and inclusive societies for sustainable development” and “provide access to justice for all, and build effective, accountable and inclusive institutions at all levels” into the future trajectory of defence. Armscor will also participate in the work established by Stats SA by providing statistics of

the SDGs as and when required, and through its mandate and inherent acquisition and procurement capabilities.

- Armscor, because of its mandate, will indirectly support selected SDGs into the future trajectory of defence. Armscor supports Goal 4 by granting bursaries and donations to schools in previously disadvantaged communities, as well as Goal 5 by adhering to its Employment Equity Policy, whereby Armscor aims to grant 33 bursaries annually.
- Corporate governance is enshrined in the King IV Report on Corporate Governance for South Africa. Armscor embraces the principles outlined in this report and continues to strengthen its departmental role and function in the governance, risk and compliance functions through ethics and integrity.
- The implementation of the Public Service Integrity Management Framework in all government departments also informs Armscor's Code of Conduct. The Armscor Code of Conduct

demonstrates its commitment to the highest ethics and integrity aspirations. Furthermore, Armscor has the mechanisms, as stated below, to facilitate ethical execution of its mandate through:

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

Figure 3: Sustainable Development Goals



Armcor Strategy

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

As a SOC, Armcor is strategically positioned between African governments, the private sector and fellow local and international defence industry companies. The objective is to meet the defence matériel requirements of the DOD effectively, efficiently, and economically; and the defence technology, research, development, analysis, and test and evaluation requirements of the DOD effectively, efficiently, and economically.

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

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

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

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

In order to move ahead exponentially, Armcor should improve on its decision-making process and adopt

a flexible system that will be responsive to urgent requirements from all clients. Efficient and effective delivery will contribute greatly in reaching the overall goal of moving Africa towards peace, stability and growth.

Key Strategic Outputs

Revenue Generation

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

Cost Management

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

Effective and Efficient Delivery

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

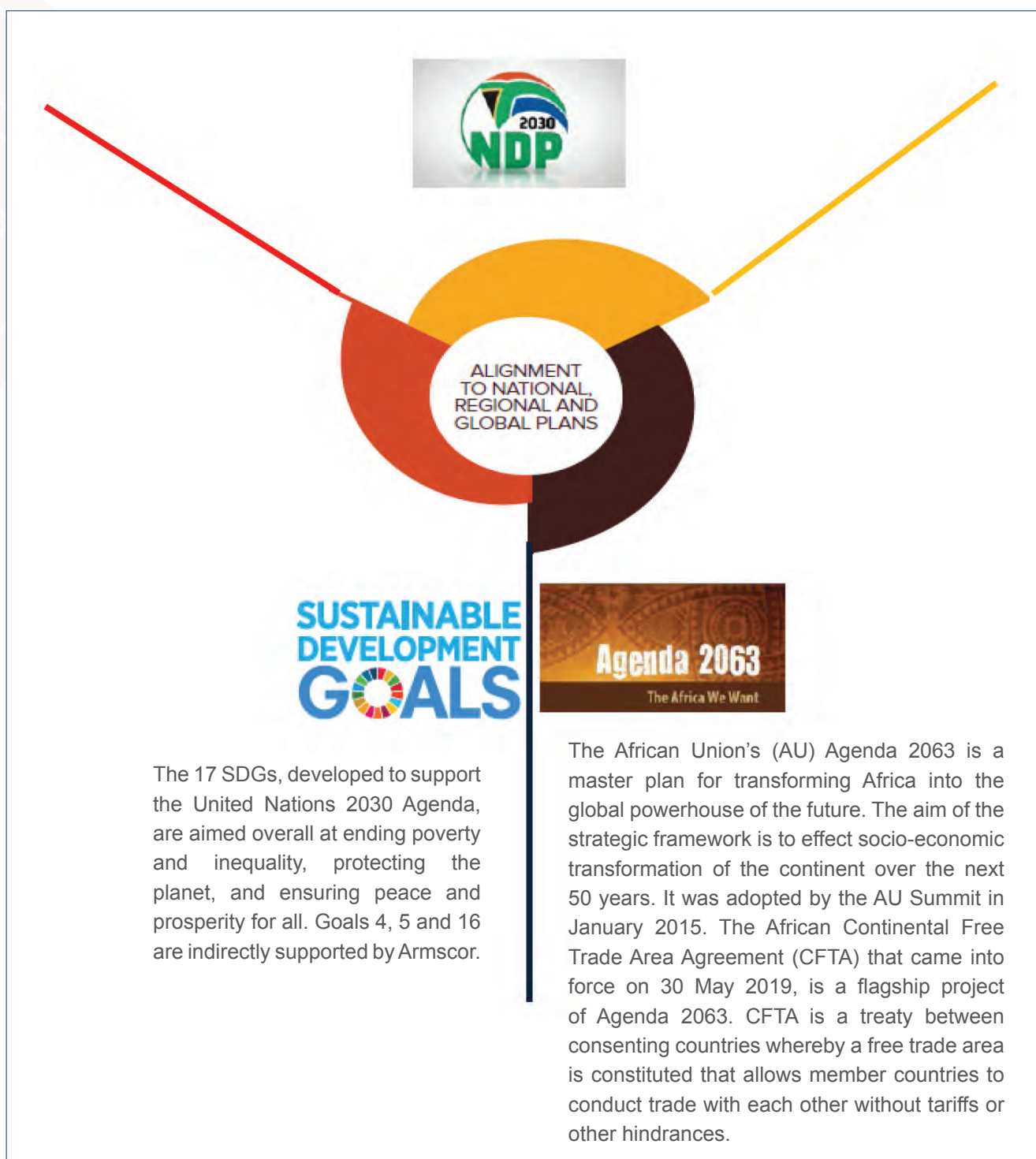
Stakeholder Management

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

Armcor's contribution to NDP, Vision 2030, SDGs and AU Agenda 2063

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

Figure 4: NDP, Vision 2030, SDGs and AU agenda 2063



Armscor Stakeholders

Stakeholder engagement is a critical element of Armscor's business. Armscor's stakeholders contribute to its value-creation process, which is articulated through projects' business processes and procedures.

Across the holistic end-to-end value chain Armscor fulfils many roles: acquisition, procurement, maintenance, technology know-how, which ranges from technology services and disposal of products.

The Corporation prides itself on long-standing and well established relationships with various government departments that partner for service delivery.

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

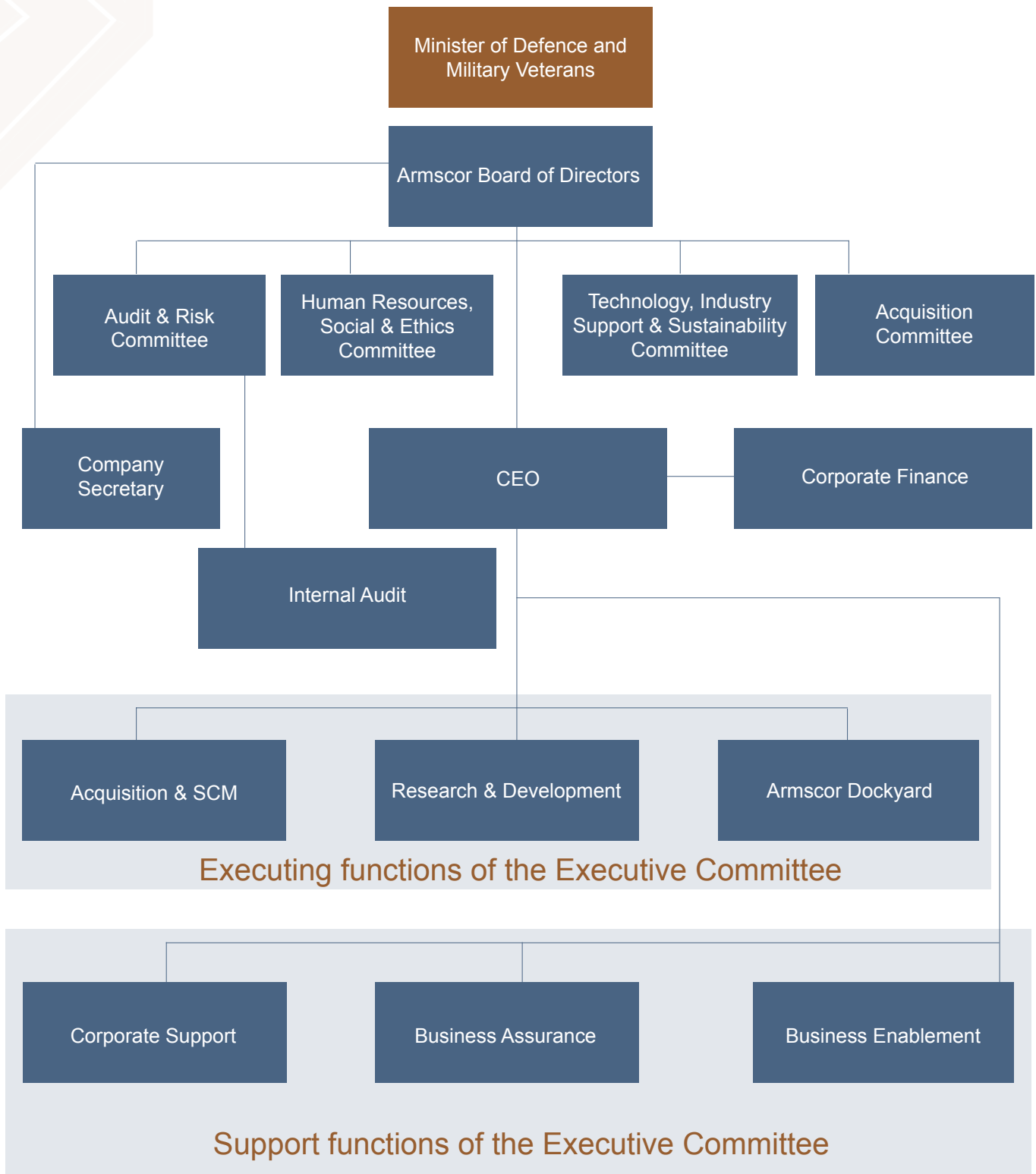
Table 1: Armscor Stakeholder List

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

1.6 ORGANISATIONAL STRUCTURE

Armcor is a South African State-Owned Entity mandated by the Armcor Act (Act No. 51 of 2003). The Minister of Defence and Military Veterans is the Executive Authority responsible for Armcor.

Figure 5: Armcor/DOD Organisational Structure



1.7 BOARD MEMBERS

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

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

BOARD OF DIRECTORS



Dr PD Dexter
Chairperson

Gender: Male
Race: White

Academic Qualifications: PhD
MPhil
BA

Areas of Expertise: Project Management
Strategic Leadership
Financial Management
Research and Analysis
Human Resources
Change Management

Position on Armscor Board: Chairperson of the Board

Appointment Date: 1 December 2020

Position on other Boards: South African Weather Service
NEHAWU Investment Holdings
Africa Energy Corporation
Global Beef
Freedom Property Fund
One Vision Investment
Emerald Panther Investment
NIH Subsidiaries



Mr MS Motimele
Deputy Chairperson

Gender: Male
Race: African
Academic Qualifications: Management Development Programme
 Certificate in Finance Management
 MBA
Areas of Expertise: Communication and Public Relations
 Labour Relations
 Intergovernmental Relations
 Legislative Experience
 Integrated Management System
Position on Armscor Board: Deputy Chairperson of the Board
 Member of the Acquisition Committee
 Member of the Technology, Industry Support and Sustainability Committee
Appointment Date: 27 March 2019
Position on other Boards: MS Motimele Marketing and Consulting Pty (Ltd)
 AfriSteel Pty (Ltd)
 Direla Investments
 Bunang Food Security



Adv. SP Mbada
Chief Executive Officer

Gender: Male
Race: African
Academic Qualifications: B Juris
 BA (Hons)
 MAP
 LLB
 LLM
Areas of Expertise: Strategic Management
 Business Restructuring
 Mediation / Negotiation
 Training / Change Facilitation
 Mentorship
 HR Management
 IR Management
 Training Management
Appointment Date: 1 September 2009
Position on Executive Committee: Chief Executive Officer
Position on Armscor Board: Executive Director of the Board
Position on other Boards: Directorships: Armscor Defence Institutes (Pty) Ltd (Dormant)
 Erasmusrand Eiendom (Pty)Ltd (Dormant)
 Sportrand (Pty) Ltd (Dormant)
 Oospark (Pty) Ltd (Dormant)



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

Mr JG Grobler **Chief Financial Officer**



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

Ambassador JT Ndhlovu



Dr RC Lubisi

Gender: Male
Race: African
Academic Qualifications: Bachelor of Science
 Higher Diploma in Education
 Bachelor of Education
 Doctor of Philosophy
Areas of Expertise: Project Management
 Strategic Management
Position on Armscor Board: Non-Executive Director of the Board
 Chairperson of the Technology, Industry Support and Sustainability Committee
 Member of the Audit and Risk Committee
Appointment Date: 1 December 2020
Position on other Boards: Chairperson for Morar Incorporated
 Maziwa Holdings
 ThemoPharm



Ms R Matenche

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



Maj Gen (ret) LC Pepani

Gender: Male
Race: African
Academic Qualifications: Diploma in Social Sciences
 Executive National Security Programme
 Certificate in Public Relations Management
 Executive Course in Peace Operations
Areas of Expertise: Foreign Liaison
 Transformation
 High level negotiation and facilitation
 Security and Political analysis
 Security and defence management
Position on Armscor Board: Non-Executive Director of the Board
 Member of the Human Resources, Social and Ethics Committee
 Member of the Acquisition Committee
Appointment Date: 1 December 2020
Position on other Boards: None



Ms BF Skweyiya-Gushu

Gender: Female
Race: African
Academic Qualifications: Post Graduate Diploma
 Master's in International Political Communications
Areas of Expertise: Communications and Marketing
 Campaigning
 Research
 Project Management
 Media Relations
 Public Diplomacy
Position on Armscor Board: Non-Executive Director of the Board
 Member of the Audit and Risk Committee
 Member of the Technology, Industry Support and Sustainability Committee
Appointment Date: 1 December 2020
Position on other Boards: 20 Media Incubation



Mr TM Sukazi

Gender: Male
Race: African
Academic Qualifications: B Proc
 LLB
 LLM
Areas of Expertise: Corporate Governance and Regulatory
 Mergers and Acquisitions
 Corporate and Commercial Law
 Banking and Finance
Position on Armscor Board: Non-Executive Director of the Board
 Chairperson of the Acquisition Committee
 Member of the Audit and Risk Committee
Appointment Date: 1 December 2020
Position on other Boards: Social Housing Regulatory Authority Council Member



Ms PN Mashinini

Gender: Female
Race: African
Academic Qualifications: Post Graduate Diploma
 Diploma in Project Management
 Executive Management Development Programme
 Master's in Business Administration
Areas of Expertise: Corporate Services
 Strategy
 Human Resources
 Transformation
 Performance Management
 Operations Management
Position on Armscor Board: Non-Executive Director of the Board
 Chairperson of the Human Resources, Social and Ethics Committee
 Member of the Acquisition Committee
Appointment Date: 1 December 2020
Position on other Boards: Thebe Investment Company



Gender: Female
Race: African

Academic Qualifications: MBA
GradCSSA
BCom

Areas of Expertise: Governance
Strategy
Human Resources

Appointment Date: 1 April 2016
Position on Armscor Board: Company Secretary
Position on other Boards: None

Ms FM Kumalo

Company Secretary

1.8 EXECUTIVE MANAGEMENT

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

In undertaking these responsibilities, the Chief Executive Officer is supported by an executive management structure, called the Executive Committee. All business units are represented at this level.



Adv. SP Mbada

Chief Executive Officer

Gender:	Male
Race:	African
Academic Qualifications:	B Juris BA (Hons) MAP LLB LLM
Areas of Expertise:	Strategic Management Business Restructuring Mediation / Negotiation Training / Change Facilitation Mentorship HR Management IR Management Training Management
Appointment Date:	1 September 2009
Position on Executive Committee:	Chief Executive Officer
Position on Armscor Board:	Executive Director of the Board
Position on other Boards:	Directorships: Armscor Defence Institutes (Pty) Ltd (Dormant) Erasmusrand Eiendomme (Pty)Ltd (Dormant) Sportrand (Pty) Ltd (Dormant) Oospark (Pty) Ltd (Dormant)



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

Mr JG Grobler **Chief Financial Officer**



Gender: Male
Race: African
Academic Qualifications: LLM
 BA Law (B Juris)
 LLB
Areas of Expertise: Higher Dip in Tax Law
 Governance
 Legal/Risk and Compliance
 Strategic Leadership and Management
Appointment Date: 1 September 2003
Position on Executive Committee: Group Executive: Acquisition and SCM

Mr M Teffo

(Note: Mr M Teffo was appointed Group Executive: Acquisition and SCM on 1 March 2021, as Mr JS Mkwana retired)



Prof. NM Mkaza

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



Adv. NB Senne

Gender: Male
Race: African
Academic Qualifications: B Juris
 LLB
 Bar Exam (Society of
 Advocates)
Areas of Expertise: Governance
 Legal/Risk and Compliance
 Strategy
Appointment Date: 1 May 2011
**Position on Executive
 Committee:** Group Executive: Business
 Assurance



Adv. N Mvambo

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



Ms JL Mzili

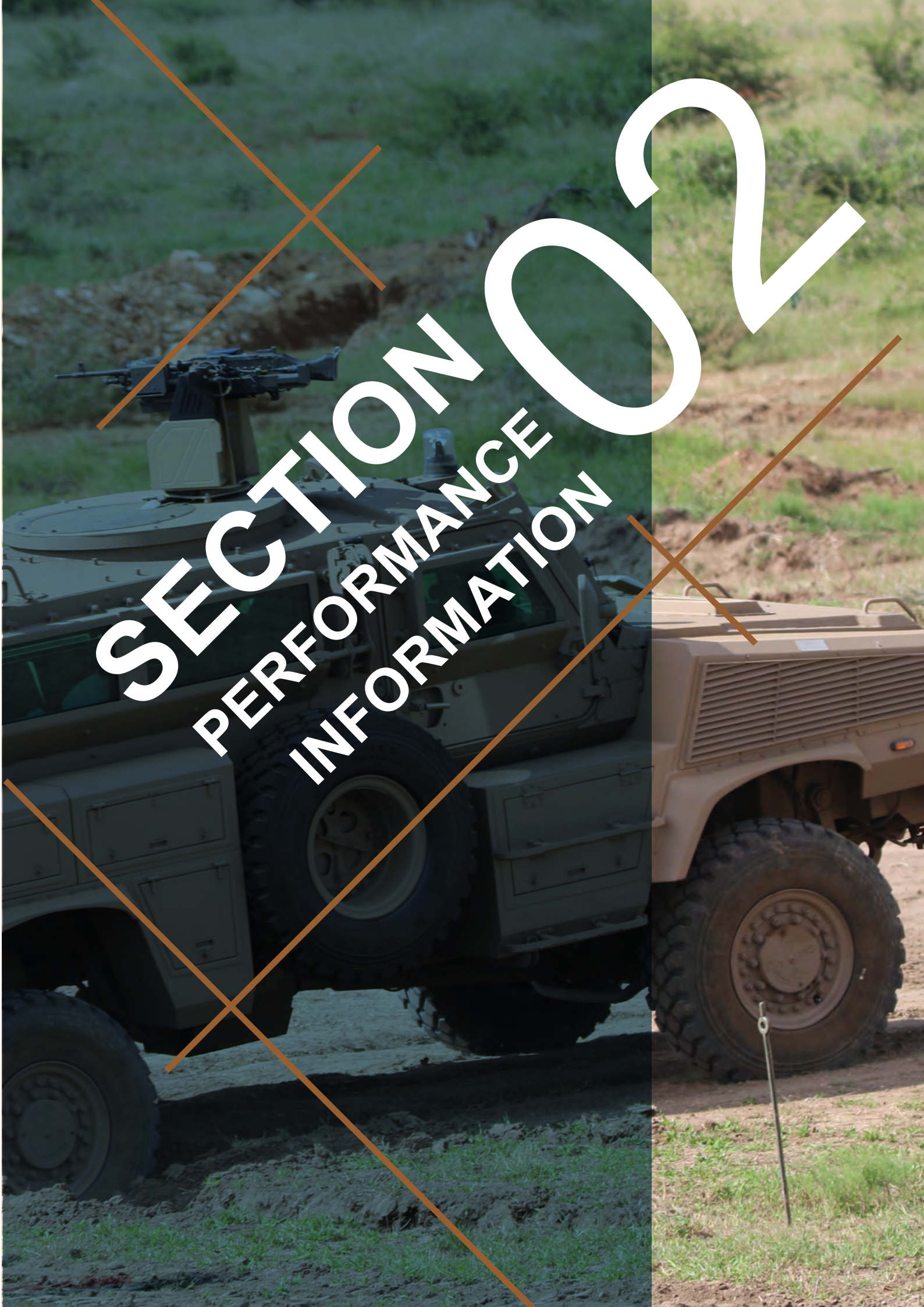
(Note: Accepted voluntary severance on 1 July 2021)

Gender: Female
Race: African
Academic Qualifications: MBA
 BCom (Hons) Business Management
 BCom
Areas of Expertise: Strategic Management
 Strategic Marketing
 Business Development
 Financial Management
Appointment Date: 1 March 2013
Position on Executive Committee: Group Executive: Business Enablement



Dr H Van Rensburg

Gender:	Male
Race:	White
Academic Qualifications:	DBL MBL BSC (Hons) HDip Eng Mechanical
Areas of Expertise:	Operations Management Operations Research Strategic Management Manufacturing Engineering
Appointment Date:	1 April 1997
Position on Executive Committee:	Executive Manager: Dockyard



02

SECTION PERFORMANCE INFORMATION

2.1 PERFORMANCE AGAINST GOALS 2020/21

Operational outputs for the 2020/21 financial year

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

Performance against goals

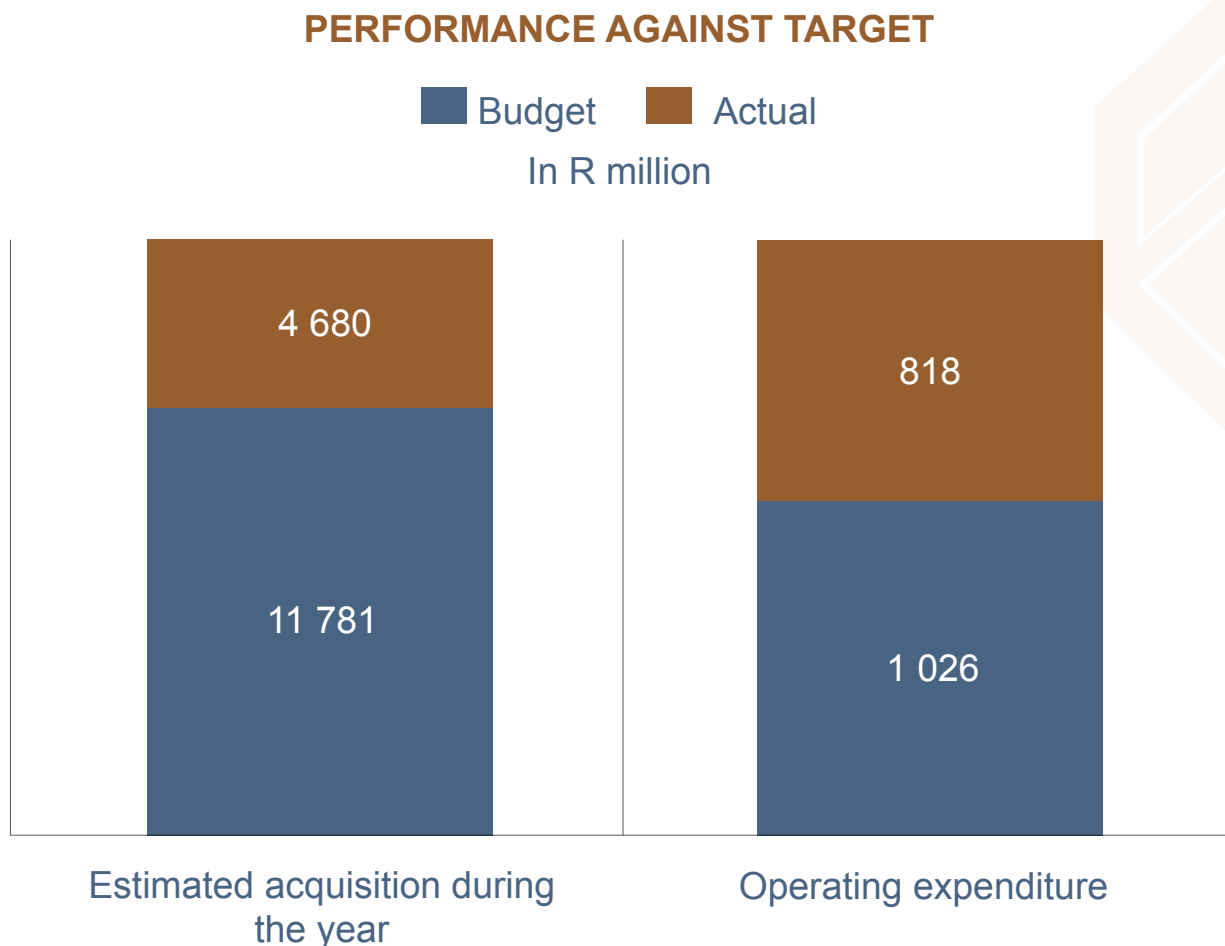
In addition to the two categories, Armscor uses an overall efficiency measure, which is the cost of acquisition. This measure reflects the ratio of operating cost incurred versus the acquisition cash flow during (industry can deliver as contracted) the reporting period based on the total forecasted acquisition activities (revised baseline). A cost of 8,71% was budgeted for the 2020/21 financial year taking into consideration the baseline for contracting and the agreed performance requirement to commit 95% thereof, while contractual payments should be 95% of the committed amount.

Table 2: Acquisition cost

Acquisition cost:	2020/21	2019/20	2018/19
Budgeted acquisition cost based on calculated cash flow	8,71%	8,87%	8,86%
Acquisition cost based on actual cash flow	17,49%	15,80%	15,11%
<i>Note: Budgeted figure was a result of lower actual expenditure due to reasons as stated in the performance measurement.</i>			

The actual operating expenditure of R818,4m furthermore represents a 20% decrease from the budgeted operating expenditure of R1 026,2m, which is mainly due to the saving on personnel costs and the reversal of provision for doubtful debts relating to the Department of Public Works and Infrastructure (DPWI) rental income. The acquisition cost was similar to previous financial years, significantly influenced by the industry's inability to execute the contracted work order for cash flow to take place.

Figure 6: Performance against goals



Re-tabled Corporate Plan on 8 July 2020

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

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

The outputs are defined as follows:

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

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

Goal 2: System support acquisition and procurement

The outputs are defined as follows:

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

measured against the formally planned cash flow in terms of achieved commitments for the financial year.

Goal 3: Placement schedule

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

Goal 4: Management of Defence Industrial Participation

Target set to measure the execution of Defence Industrial Participation (DIP) obligations in terms of the service level agreement and in compliance with the Armscor Act.

Goal 5: Management and execution of defence technology, research, test and evaluation requirements of the DOD

The target of Armscor Defence Institutes is set to achieve 95% completion of contractual milestones/ deliveries as per orders received.

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

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

Table 3: Performance against the Service Level Agreement Outputs

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

No.	Output description (Projects)	Annual target 2020/21	Achievement against target	Performance against output
1.1	Percentage of DOD capital requirements converted into orders placed including: • Receipt of requirement. • Assessment and confirmation of requirement. • Submission of a top-level project schedule (Planning Document) to DMD within 14 working days. • Initiation of sourcing solution. • Approval and placement of order. (Target set to measure the actual commitment of funds against the formally planned value of commitments, which is based on requirements received and confirmed as valid requirements from the DOD.)	95%	98,23%	DOD requirements to the value of R223,33m were received. Armcor committed R223,33m of the above mentioned funds resulting in an achievement of 98,23%. Target exceeded.
1.2	Execution of contracts as measured through actual cash flow on DOD orders placed. (Actual cash flow will be measured against planned cash flow, in terms of first revision, and adjusted for factors beyond Armcor's control that is due to the user or the DOD will be done with the consent of the DOD.)	95%	97,39%	The planned cash flow for the first revision was R2 941,21m. Armcor managed to realise cash flow to the value of R2 190,01m resulting in an achievement of 74,46%. Adjustments for factors beyond Armcor's control amounted to R692,40m. This resulted in a final achievement of 97,39%. Target exceeded.

Goal 2: System support acquisition and procurement

No.	Output description (Operational funds)	Annual target 2020/21	Achievement against target	Performance against output
2.1	Percentage of DOD system support and procurement requirements converted into orders placed including: • Receipt of requirement. • Assessment and confirmation of requirement. • Submission of a top-level project schedule (Planning Document) to DMD within 14 working days. • Initiation of sourcing solution. • Approval and placement of order. (Target set to measure the actual commitment of funds against the formally planned value of commitments, which is based on requirements received and confirmed as valid requirements from the DOD.)	95%	98,34%	DOD requirements to the value of R1 103,28m were received. Armcor committed R1 084,92m of the above mentioned funds resulting in an achievement of 98,34%. Target exceeded.
2.2	Execution of contracts as measured through actual cash flow on DOD orders placed. (Actual cash flow will be measured against planned cash flow, in terms of first revision, and adjusted for factors beyond Armcor's control that is due to the user or the DOD will be done with the consent of the DOD.)	95%	96,27%	The planned cash flow for the first revision was R3 446,33m. Armcor managed to realise cash flow to the value of R2 567,06m resulting in an achievement of 74,49%. Adjustments for factors beyond Armcor's control amounted to R779,91m. This resulted in a final achievement of 96,27%. Target exceeded.

Goal 3: Schedule placement

No	Output description	Annual target 2020/21	Achievement against target	Performance against output
3.1	Average time taken to convert DOD requirements into orders including: - Confirmation of requirement. - Completion of sourcing process. - Approval and placement of order. (Time taken from registration of requirement (3A) to placement of contract.)	95 days for shortened process COTS items.	64,65	An average of 64,65 days taken from receipt of requirement to placement of contract. Target exceeded.
		125 days for non-COTS and Product Support GDA procurement.	104,42	An average of 104,42 days taken from receipt of requirement to placement of contract. Target exceeded.
		145 days for SDA acquisition programmes.	147,47	An average of 147,47 days taken from receipt of requirement to placement of contract. Target not achieved.

A certain percentage of counter-performance is negotiated by Armscor with overseas suppliers on all contracts in excess of USD 2m. The management of these counter-performances is included as an objective for Armscor, and the target is reflected in the following table:

Goal 4: Management of Defence Industrial Participation

No	Output description	Annual target 2020/21	Achievement against target	Performance against output
4.1	Value of DIP credits to be granted to overseas suppliers. Active Portfolio:	R41,78m	R95,76m	DIP credits to the total value of R95 763 738 have been awarded during the 2020/21 financial year. Target exceeded.

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

No	Output description	Annual target 2020/21	Achievement against target	Performance against output
5.1	Percentage of execution of technology requirements. (Armscor Research & Development to achieve contractual milestones / deliveries as per agreed Memoranda of Agreement and orders received for the financial year.)	95%	97,50%	DOD orders to the value of R237 970 198 were received. Amount invoiced: R232 011 327 and executed during the year. Target exceeded.

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

No	Output description (Projects)	Annual target 2020/21	Achievement against target	Performance against output
6.1	Percentage of contractual milestones executed. (Adherence to project contractual milestone planned dates as approved in project plan.)	90%	92,5%	Measurement is for projects taken (average) on by the Dockyard in accordance with available resources and under full Dockyard management control. Work conducted on the following vessels were signed off by the SA Navy: • SAS SPI PORT • SAS MTI • ADHOC Work Target exceeded.
6.2	Percentage of compliance to project finance. Manage project finances in accordance within approved financial authorities and cash flow plan.	90%	99,9%	Financial Authorities were committed (this is only based on the FA2020/21 money approved for projects and paid). Target exceeded.
6.3	Percentage of Ancillary Services executed. (Provision of Ancillary Services as defined by SA Navy (power generation station, air supply, water supply, carnage support requirements, etc.) as per Dockyard funded business plan.)	95%	100%	Ancillary Services as requested by SA Navy were delivered and signed off by the SA Navy. Target exceeded.
6.4	Percentage of training requests executed. (Training provided in accordance with the plan and requirements submitted by the SA Navy during the reporting period.)	90%	100%	Training requirements requested by the SA Navy were provided and signed off by the SA Navy. Target exceeded.
6.5	Percentage compliance with quarterly report timelines. (Supply quarterly reports to Fleet Officer Flag that addresses inter-alia project performance status, financial statements, risks with mitigating plans, capabilities, facilities and ancillary services status reporting as per reporting timeline schedule.)	90%	100%	All quarterly reports submitted to Flag Officer Fleet on or prior to delivery date and signed off by the SA Navy. Target exceeded.

Performance against Group Strategic Outputs

Armcor's Strategic Outputs:

In order to best achieve the Armcor Strategy, Armcor reviewed its Strategic Outputs and aligned them to the following four Strategic Outputs as reflected in Table 4.

Table 4: The Four Strategic Outputs

Revenue Generation	Increase in net realisable revenue to ensure that Armcor generates sufficient income to meet its funding needs in the short to medium term.
Cost Management	Strategic capability maintenance “while reducing cost”, to ensure that Armcor remains sustainable to meet its funding needs in the near to medium term.
Efficient & Effective Delivery	Reducing the turnaround time of core customer-facing and internal processes, thereby strengthening stakeholder relationships.
Stakeholder Management	Developing and maintaining long-lasting, strategic relationships with key stakeholders.

Table 5: Performance against Group Strategic Outputs

Progress/compliance with the approved Group strategic outputs are stated below.

Strategic Output 1: Revenue Generation				
No.	Output description (Projects)	Annual target 2020/21	Achievement against target	Performance against output
1.1	Generate additional realisable revenue			
1.1.1	Group Revenue (transfer payment, other income, and finance income).	R1 221,8m	R1 289m	Transfer payment: R1 113,324m Other income: R86,512m Finance income: R89,169m Goal achieved as total group revenue of R1 289,005m was received. Target exceeded.
1.1.2	Revenue from existing facilities of Armscor R&D.	R330,6m	R341m	Sales - DOD – MOA Income: R98 342 243 Sales – Goods / Services: R236 096 795 Other Income: R6 537 091 Total income generated (excluding Transfer Payment): R341m Target exceeded.
1.1.3	Revenue generated from the Business Enablement Business Unit.	R33,7m	R16,9m	Revenue generated from Business Enablement amounted to R16,9m. Target not achieved.

Note: Group revenue targets were exceeded due to higher interest income realised from higher available funds due to lower fixed assets procured than was planned for. Other income was also higher as the rental received from the DPWI includes escalated rentals premium and amounts previously provided for as bad debts.

Strategic Output 2: Cost Management				
No.	Output description	Annual target 2020/21	Achievement against target	Performance against output
2.1	Strategic maintenance and reduction of capital and operating costs			
2.1.1	Improve net financial position.	R243,3m deficit	R124,3m surplus	Surplus of R124,3m due to savings on personnel and other operational costs. Target exceeded.

Strategic Output 3: Efficient and Effective Delivery				
No.	Output description	Annual target 2020/21	Achievement against target	Performance against output
3.1	Effective Technology and IP Management			
3.1.1	Development and Test Services: Percentage compliance with Technology Development Master Plan, in accordance with SLA between Armscor and DOD.	90%	98,68%	Orders placed: Budgeted target: R1 034 942 884 Orders placed: R1 021 313 871 Achievement: 98,68% Target exceeded.
3.1.2	Completion of IP requests in terms of Armscor process.	80%	100%	2 requests for IP exploitation were received and both requests were processed. Target exceeded.
3.1.3	Maintain a complete and comprehensive IP Register, which ensures the maintenance of an unqualified audit opinion, in respect of Armscor and DOD Intangible Capital Assets under Armscor's management.	31 March 2021	31 March 2021	Complete and comprehensive IP register maintained. Target achieved.
3.2	Infrastructure Renewal			
3.2.1	Renew application systems to improve effectiveness and efficiency: • Implementation of the approved application system renewal plan.	80%	60%	The ERP bid evaluation process was in the final stages subsequent to the appointment of a service provider. However, the process was delayed due to a legal opinion requested to confirm if the process was subject to any interference. It is envisaged that the ERP evaluation process will be concluded in the next financial year. Target not achieved

Strategic Output 4: Stakeholder Management				
No.	Output description	Annual target 2020/21	Achievement against target	Performance against output
4.1	Stakeholder Engagement Strategy			
4.1.1	Stakeholder Satisfaction Improvement Survey (conducted every second year).	31 March 2021	26 March 2021	The overall satisfaction rate (out of 10) was as follows: - Stakeholders' satisfaction: 7.3 - Suppliers satisfaction: 7.4 - Service providers: 7.2 - External clients: 7.7 This is an above-average rating of how the Corporation is perceived. Target achieved.
4.1.2	Conduct integrated employee engagement survey and determine new baseline (2020).	% Improvement to be determined	% Improvement remained unchanged	The new baseline could not be established during the 2019/20 financial year as planned due to absence of employees as a result of COVID-19 National Lockdown Regulations. Thus, the new baseline was established later than planned as follows: The New Baseline 2020/21: High Engagement state: 14% Moderately engaged: 68 Disengaged: 18% Target partially achieved.
4.2	Transformation of Corporation			
4.2.1	Achievement of approved Equity Plan that is directed towards:	82% black employees	83,48% black employees	Overall, black representation totals 83,48%. Target exceeded.
	- increasing black representation. - improving female representation.	40% female employees	39,20% female employees	Overall, female representation totals 39,20%. Target not achieved.

4.2.2	Controllable staff turnover in technical positions, excluding retirements (less than or equal to 4,5%).	≤4,5%	1,55%	There were 9 (out of 581,38 technical positions) resignations for the year. Target exceeded.
4.2.3	Skills Development Programme: • Provision of bursaries for full-time studies.	33	34	34 students were enrolled on the Armscor Bursary Scheme as at 31 March 2021. Target exceeded.
	• Contracting and development of graduate as interns (Talent Development Programme) (number of employees in programme).	40	40	40 candidates were appointed into the Talent Development Programme. Target achieved.
4.2.4	Succession Planning Development: Percentage compliance with Succession Planning Development (key identified positions).	80%	87,50%	87,50% compliance with the development plans as contracted with successors. Target exceeded.
4.2.5	Total number of people with disabilities.	28	25	The total number of people with disability appointed amounts to 25. Target not achieved.

Table 6: Corporate Plan 2020 tabled on 12 March 2020

Outcome	Output	Output Indicator	Planned Annual Target 2020/21	Actual Achievement	Deviation from planned target to Actual Achievement	Reasons for deviations	Reasons for revisions to the Outputs/ Output indicators/ Annual Targets
Generate additional realisable revenue	Generate additional income from existing and new sources	Group Revenue (transfer payment, other income, and finance income)	R1 378,9m	R1 289m	N/A	National Treasury's budget reduction.	National Treasury's budget reduction.
		Revenue from existing facilities of Armscor R&D	R403,1	R341m	N/A	National Treasury's budget reduction.	Impact of COVID-19 on projected revenue.
		Revenue generated from the Business Enablement Business Unit	R48,7m	R16,9m	N/A	Impact of COVID-19 on projected revenue.	Impact of COVID-19 on projected revenue.
Strategic maintenance and reduction of capital and operating costs	Reduce Group costs, including finance, capital, and operating costs, to ensure zero financial deficit	Improve net financial position	R0,7m surplus	R121,3m surplus	N/A	National Treasury's budget reduction and decrease in revenue while reducing operating costs.	National Treasury's budget reduction.

Note:

The Supplementary Budget Review 2020 published by National Treasury on 24 June 2020, stated that additional funds have been prioritised in response to the economic impact of the COVID-19 pandemic, with government supporting interventions, primarily in the departments of Police and Defence. This budget reprioritisation across national departments and public entities, resulted in the transfer from the DOD to Armscor to be decreased by approximately R120 million.

Management reviewed Armscor's Corporate Plan 2020 specifically the Revenue Generation and Cost Management targets as well as adjusting Armscor Group budget allocations for the 2020/21FY, as part of the Adjustments Appropriation Bill 2020, tabled on 24 June 2020.

Armcor's Response to the COVID-19 Pandemic

During the world-wide escalation of the COVID-19 pandemic, President Ramaphosa declared a National State of Disaster in terms of the Disaster Management Act, 2002 (Act No. 57 of 2002) on 15 March 2020 and announced a package of extra-ordinary measures to combat this public health emergency. Due to the impact of the coronavirus pandemic across the world, the President subsequently announced, on 23 March 2020, a National Lockdown in terms of the Disaster Management Act to prevent a human catastrophe.

President Ramaphosa directed the SANDF to deploy, in cooperation with the SAPS, and in support of other government departments, to ensure that the measures announced were implemented throughout the country. The SANDF deployed under Operation Notlela in various parts of the country from midnight on 26 March 2020 as ordered.

Operational Overview

The SANDF deployed personnel, constituting members from the regular force, reserve force and auxiliary

services. The deployed force levels varied according to the levels of the State of National Disaster as per the Presidential Minute. Armcor senior management and executives were on standby to support the SANDF with executing ordered commitments.

Operational Activities

During lockdown levels 5 and 4, tasks executed by deployed soldiers included roadblocks, vehicle check points, foot patrols in cooperation with the SAPS, including operations against criminal elements which undermined the lockdown regulations, such as involvement in illicit trading and transportation of contra-bands, explosives, weapon smuggling and high-level cross border crimes.

Other coordinated operations included the deployment of soldiers for humanitarian assistance, primary healthcare, water purification and water provision, mass education about COVID-19, screening, testing, scanning and quarantining, among others. Armcor senior management and executives were on standby to support the SANDF with executing ordered commitments and urgent procurement needs.

Table 7: Reporting Armscor's response to the COVID-19 pandemic

Intervention	Total budget allocation per intervention (R'000)	Budget spent per intervention	Contribution to the Outputs in the Corporate Plan (where applicable)	Immediate outcome
Compliance with capabilities required to support national efforts in mitigating and combating the spread of COVID-19. Among others included: Development and distribution of sanitisers and disinfectants.	No Budget allocation	R3 437 153,87	Armscor capability service delivery.	An effective and efficient Armscor capacitated to execute ordered commitments. Revenue generation and product modification.
Compliance with capabilities required to support national efforts in mitigating and combating the spread of COVID-19. Among others included: Medical equipment such as X-Ray machines, radiology, hospital beds, lockers and mattresses.	No Budget allocation	R11 894 190,99	Armscor capability service delivery.	An effective and efficient Armscor capacitated to execute ordered commitments.
Compliance with capabilities required to support national efforts in mitigating and combating the spread of COVID-19. Among others included: Supply of Helmets, Body armour, camouflage clothing, etc.	No Budget allocation	R44 515 290,85	Armscor capability service delivery.	An effective and efficient Armscor capacitated to execute ordered commitments.
Compliance with capabilities required to support national efforts in mitigating and combating the spread of COVID-19. Among others included: Procurement of 7 000 thermal drawers and 7 000 thermal long sleeve t-shirts.	No Budget allocation	R1 035 930,00	Armscor capability service delivery.	An effective and efficient Armscor capacitated to execute ordered commitments.

Note:

- There was no budget allocation. However, the budget spent was provided by Department of Defence.
- Interventions were executed in all provinces.
- The number of beneficiaries cannot be determined.
- The disaggregation of beneficiaries cannot be determined.

EXECUTING FUNCTIONS



2.2 EXECUTING FUNCTIONS

2.2.1 Acquisition

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

The acquisition role of Armscor entails all the actions that need to be taken to satisfy the need for defence matériel or services intended for use in meeting or in support of client requirements. This includes requirements analysis, technology development, design and development of products and product systems, the industrialisation and manufacturing of mature products and product systems that fully meet the stated user requirements, procurement of already existing and qualified products as well as the acquisition of product system support for user systems during the operational lifetime of the systems.

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

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

During the reporting period, Armscor managed and executed contracts to a total value of R12 408,61million for the DOD, of which R7 628,5million, or 61,48%,

of the total acquisition and procurement portfolio related to technology and capital acquisition projects. Procurement and maintenance and support contracts to a value of R4 780.1 million or 38.52% of the total portfolio were managed and executed during the same period.

The funding allocation for projects on the Special Defence Account (Capital Budget) has been continually decreasing over the past three years. During the reporting period, there were only 15 projects with a funding allocation for the year. However, a total of 31 projects were executed due to funds being carried over from the previous financial year. Only projects that had already been contracted or partially contracted for execution were funded, and as these projects are completed, the number of projects being executed will continue to decline with no new projects being funded from the Special Defence Account. This decrease in the number of funded projects on the Special Defence Account will have a significant impact on Armscor, as it impacts not only on workload of experienced Programme Managers, but also on Armscor's ability to provide exposure and experience to Programme Managers with respect to the management of complex projects.

Status of Objectives

Armscor continued to participate in the National Defence Industrial Council activities as required. During the reporting period, a noteworthy contribution was made with the development of the Aerospace and Defence Masterplan. The contribution ensured appropriate strategic direction for the prioritisation and sustainability of the defence industry sector.

Analysis was further provided to determine the vulnerability of the defence industry, specifically in the areas of companies possessing sovereign and strategic capabilities. Presentations were made to external stakeholders for information and decision making purposes.

Taking cognisance of the increasing pressure on the operating budget of the DOD, Armscor embarked on an initiative during the reporting period to determine

the state of Maintenance, Repair and Overall (MRO) contracting for the SANDF with the aim of identifying areas where maintenance and repair could be effected in a more cost efficient manner. This study identified specific risks and matters of emphasis that should be addressed to improve the prevailing situation where operational capabilities have to be optimally maintained with a declining budget. Engagement with the SANDF Command Staff in this regard will commence during the next reporting period.

In spite of severe delays in deliveries and disruption of the execution of contracts by industry due to the COVID-19 lockdowns, a number of projects or sub-projects were successfully completed and new capabilities were delivered to, and taken into operation by, the SANDF. Among those include:

- a) 40mm Automatic Grenade Launcher Weapons System – This project was completed with the delivery of the full requirement of the weapons to the Special Forces Brigade and the system was formally handed over to the Chief of the SA Army on 7 October 2020.
- b) Mass Field Feeding System – The requirements for the 50- and 200 man kitchens, as well as for the mess facilities were delivered and completed while the first number of the transport trailers were delivered to the SA Army. The remainder of the transport trailers will be delivered early during the 2021/22 financial year.
- c) Mobile Tented Accommodation System – The project is nearing completion and delivered among others, the full requirement of small, medium and large accommodation and amenities tents, vehicle tents, ablution facilities, and shower facilities to the SA Army. The project will be completed during the 2021/22 financial year.
- d) Mobile Road Construction and Earth Moving System – This project was completed with the delivery of the last of the sub-project deliverables, which included truck-tractors, low-bed semi-trailers and truck tractor and trailer combinations.
- e) Mobile Water Purification and Bottling System – This project was completed with delivery of the total requirement for mobile water purifiers, and the total system was officially handed over to the Chief of the SA Army on 31 March 2021.
- f) Aviation Rescue and Fire Fighting Vehicles – This project was completed with the delivery of the full requirement for medium crash tenders and the official handover of the project will take place during the 2021/22 financial year.

Supply Chain Management

The main element that is being undertaken under the SCM Department is that of procurement. With the current focus still being on the procurement function, the SCM Department has initiated the development of a strategic plan. The aim is to provide Armscor with the opportunity to establish an excellence driven procurement function to realise its business objectives, and to maintain its competitiveness and relevancy to its stakeholders. The strategic plan will provide the basis for consistent strategic decision making aimed at transforming the Armscor supply chain function into a leading Defence Sector Industry Procurement Agency for Government.

However, due to budget constraints, other elements of the approved SCM structure, in particular demand management, had not yet been implemented. This therefore meant that the set objectives could not be met as there has been no opportunity to develop and implement strategic sourcing principles that are informed by spend and needs analysis. The function will be resourced in the 2021/22 financial year.

With the implementation of the Defence Sector Codes in 2019, the transformation requirements for the 2020/21 financial year was to issue requests for bids to companies that are at least 30% black owned. In order to counter the effect of companies that are sole suppliers and or single source suppliers and that do not meet the BEE requirements, Armscor reserves the right to enter into negotiations with such entities in order to establish acceptable transformation plans going forward.

Further, the default B-BBEE Level for issuing requests for quotation is B-BBEE Level 2 or exempted micro enterprise (EME) or qualifying small enterprise (QSE).

During the reporting period, Armscor issued a total of 196 bids and 15 requests for quotation in response to the DOD requirements.

For Armscor's operational requirements, a total of 29 bids for Armscor HQ, 32 bids for R&D Business Units and 12 bids for the Dockyard were issued.

A total of 293 requests for quotation for Armscor HQ, 854 requests for quotations for R&D Business Units and 1 984 requests for quotations for the Dockyard were issued.

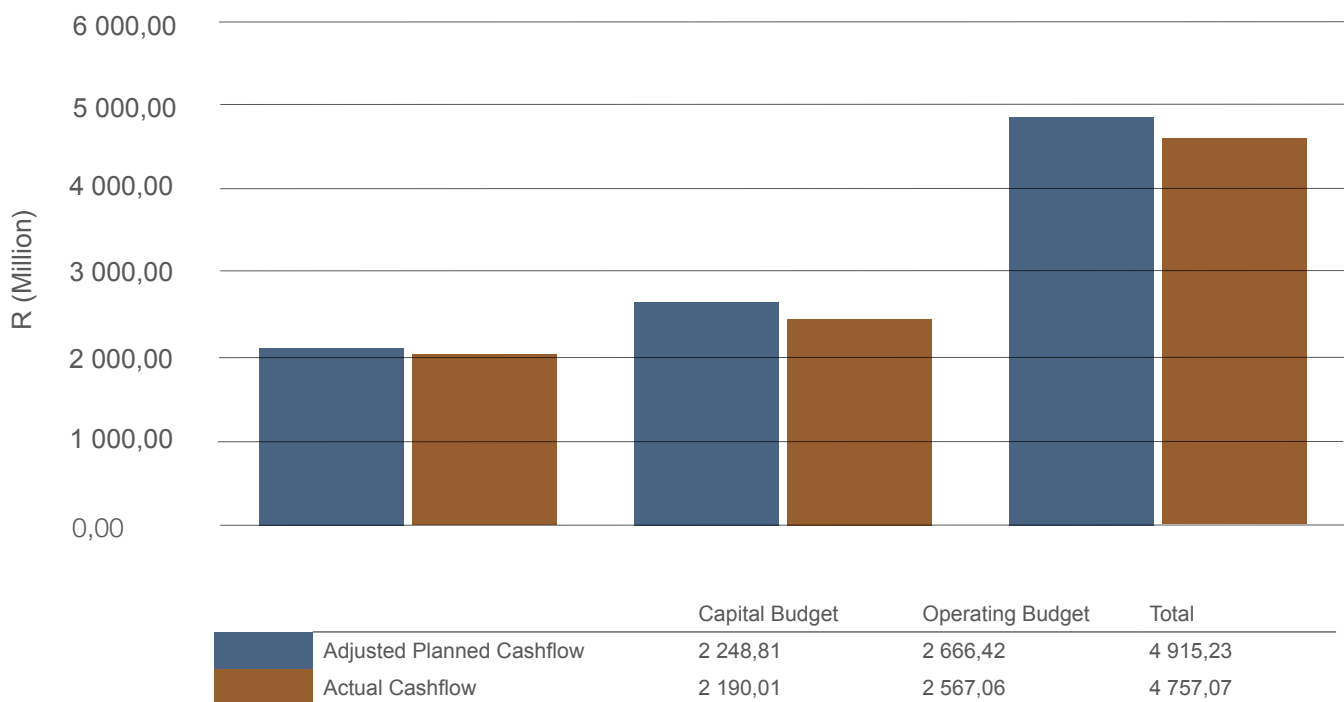
Acquisition Financial Performance

An important objective of the Acquisition and SCM Business Unit remains the achievement of planned orders and expenditure of DOD funds. In terms of the service level agreement between Armscor and the DOD, Armscor's cash flow performance is measured against the joint Armscor/DOD cash flow planning that occurs during May/June of every year, adjusted with mutually-agreed deductions due to factors beyond Armscor's control. In addition to poor performance by industry, factors beyond Armscor's control that inhibit planned cash flow from realising would typically be factors such as requirements that are received too late in a financial year to allow industry to execute the full extent of work within the financial year, where all planned funds are not spent as a result of improvements in the predicted rate of exchange, or

where ceiling amounts are contracted and where the full extent of work provided for does not materialise (e.g. maintenance contracts).

A total amount of R1 472.31 million, which was planned during the first revision in May/June 2020 as cash flow for the 2020/21 financial year is regarded as not being achievable due to factors beyond Armscor's control and is supported by agreements from the DOD. Taking this reduction of the planned cash flow target into consideration, Armscor managed to achieve and exceed its targets for the year of 95% cash flow against the planned cash flow for both capital and operating funds. Figure 7 reflects the planned cash flow that has been adjusted by deducting the value of orders that could not achieve planned payments due to factors beyond Armscor's control versus actual cash flow achieved.

Figure 7: Achieved vs Planned Cash Flow for 2020/21 Financial Year



The reporting period was yet again characterised by significant budget cuts and continuous re-planning of financial allocations within the DOD. This resulted in many requirements received by Armscor being underfunded, and in many cases funds were re-allocated subsequent to Armscor having received requirements. This resulted in many contracts (especially requirements funded from the DOD's operating budget) being placed later than planned or sometimes not materialising at all. These delays consequently had a negative impact on both the industry's ability to deliver and the achievement of planned cash flow at the end of the financial year.

During the previous financial year, it was highlighted that defence industry continued to under-perform with respect to contracted deliveries for the financial year. The effects of the COVID-19 pandemic and the consequent lockdowns and travel restrictions implemented by a number of countries had a significant impact on industry's ability to deliver against contracts as planned. A number of contractors claimed *Force Majeure* as a reason for late deliveries of products or contractual milestones, and delivery schedules were extended accordingly. These delays contributed significantly to the low cash flow achieved by the end of the financial year.

At the end of the reporting period, 41,29% of the total value of contracts funded by the DOD for the year, comprised orders placed on Denel. The deteriorating situation at Denel, caused by an inability to pay subcontractors and suppliers and thus resulting in them not receiving required subsystems and components, as well as a significant loss of capability due to resignations of key personnel, resulted in minimal performance by Denel against virtually all requirements and projects contracted to them. Significant programmes such as the New Generation Infantry Combat Vehicle, Production of the A-Darter Air-to-Air Missile and upgrade of the GV6 Field Artillery Gun have shown no progress during the reporting period. Denel managed to invoice for only 22,43% of the value of contracts phased for the 2020/21 financial year, and the bulk of the amount invoiced was for maintenance and repair activities where Armscor contracted directly with major suppliers of components and spares.

The steady decline in DOD funding for projects, has continued to necessitate industry to focus to a greater extent on the export market in order to maintain their capability and capacity. This is also to a greater extent

impacted on available capacity to timeously deliver against Armscor contracts.

In addition to the goal of achieving more than 95% of the planned cash flow by the end of the financial year, the service level agreement between Armscor and the DOD also set a goal of contracting more than 95% of received requirements. During the reporting period, Armscor managed to exceed this goal by contracting 98,23% and 98,34% of the requirements from the capital and operating budgets respectively. This was achieved in spite of significant delays in receiving requirements due to re-prioritising of the budget allocation by the DOD.

Status of Significant Acquisition Projects

General

The past reporting period was characterised by significant budget cuts in the Special Defence Account, which funds all capital projects. The last round of budget cuts resulted in the surrendering of all funding except for projects that had already been contracted. This reduction in capital funding resulted in various projects that were in the early phases of the acquisition process to be terminated and for others, the execution only up to the next logical phase where upon all work will be suspended. The reduction in the capital budget will have a significant impact, not only on the local defence industry and on the maintenance of strategic and sovereign capabilities within the industry, but also on the operational readiness of the SANDF going forward.

Maritime Systems

Hydrographic Capability

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

During the reporting period, excellent progress was made on the programme. At the end of the reporting period, construction of all the 10 blocks have been

completed, and installation of equipment has commenced. The construction of the three SMBs, Factory Acceptance Tests (FATs) and Sea Acceptance Tests (SATs) thereof is complete, and awaiting review activities and preparations for Operational Tests and Evaluation. The upgraded SA Hydrographic Office is 100% complete, with the handover process to commence. Furthermore, the construction, FATs and SATs of the Sea Boat have been completed and will be prepared for preservation until delivery of the main system. The delivery schedule however, had to be extended due to *Force Majeure* claims (COVID-19 and strikes in supplier country as well as local). The contract was amended accordingly.

Multi-Mission Patrol Capability

This programme entails the acquisition of a new Multi-Mission Patrol Capability for the South African Navy, comprising three Multi-Mission Offshore Patrol Vessels (MMOPVs) and three Multi-Mission Inshore Patrol Vessels (MMIPVs). The MMIPV portion of the project is active and contracted.

The MMIPV project is progressing in accordance with the contracted functional performance and cost. By mitigating the impact of the pandemic on vessel manufacturing, the vessel deliveries will be delayed by two months.

The construction of the first vessel has been completed and launched during the reporting period. The vessel is currently being prepared for commissioning and testing in order to be delivered towards the end of this calendar year.

The keel of the second vessel has been laid and manufacturing of the ship sections are halfway complete, with all major equipment delivered to the shipyard.

The production facility is currently being prepared in order to start production of the third vessel.

Preparation of the logistic support environment is on track to be ready by the delivery of the first vessel.

Midlife Upgrade of the SA Navy Frigates

The project formally established the Functional Baseline on 2 February 2021 after completion of all

Combat Suite studies. Due to the reduction of the capital budget, all further funding for this project has been removed, and project activities will cease after approval of the Project Study Report by the DOD.

Midlife Upgrade of the SA Navy Submarines

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

Feasibility studies have been completed and a recommended approach was defined in the Project Study Report, which was subsequently approved by the SA Navy. The acquisition and implementation phase of the programme was due to commence after completion and acceptance of the recommendations of the Project Study Report, but due to the reduction in the DOD capital budget, no further funds exist in the short term to continue with the project and all other activities have been suspended.

Airborne Systems

New Generation Short Range Air-to-Air Missile

This project entails the development of the A-Darter short range air-to-air missile system for the South African Air Force (SAAF), which is co-funded by the Brazilian Air Force and the manufacture thereof for the SAAF.

The development phase of the missile system was completed during the reporting period. The Formal Qualification Review of the missile took place in August 2019 where after the Airworthy Certification process from both Air Forces (South African and Brazilian) was completed by the end of 2019. This important milestone signified the completion of the missile development phase and the co-operation with Brazil under the development programme. Finalisation of the development phase of the missile was delayed significantly due to technical challenges and financial difficulties experienced by Denel.

A contract was placed with Denel in March 2015 for the industrialisation and subsequent production of A-Darter missiles for the SAAF. Progress on the preparation of the manufacturing processes was slow and manufacturing of subsystems for the first batch of missiles has been delayed by almost two and a half years due to financial challenges experienced by Denel and consequent non-delivery of subsystems by their suppliers and subcontractors. Delivery of the first batch of trainer missiles and initial logistic support capability was scheduled for the first quarter of the 2020 calendar year, but due to the COVID-19 lockdown it is now expected by the middle of 2021. Production and delivery of the operational missiles is currently at risk due to the financial difficulties being experienced by Denel and to a large extent by the loss of critical capabilities in Denel.

Landward Systems

New Generation Infantry Combat Vehicle

This project provides for a complete New Generation Infantry Combat Vehicle Products System (NGICV-PS) to replace the Ratel Infantry Combat Vehicle that has been in service since 1976. The project originally comprised five combat variants including their logistic support and ammunition, but four new variants were added with the approval of the Acquisition Plan by the Armaments Acquisition Council (AAC) on 13 February 2013. The quantity of 238 combat vehicles was increased to 244 after approval to increase the advance payments. Twenty-one vehicle platforms were delivered by Patria from Finland, while the remaining vehicle platforms are produced locally by Denel Land Systems (DLS) and its subcontractors. The turrets and weapon systems are locally developed and manufactured by DLS as the prime contractor.

This programme has been plagued by delays and has not shown any significant progress during the past financial year. The development phase of the programme was contractually scheduled to be completed by May 2012 (original date), but has still not been completed. The expected new completion date is December 2023. The delays are mainly attributed to both technical and financial challenges within Denel. During the reporting period, it has also become clearer that Denel is experiencing an increasing lack of capacity and capability, and this has exacerbated the delays on the programme.

The Section Variant, which is the lead variant, had still not reached the establishment of the Product Baseline by the end of the reporting period. It had failed two rounds of performance tests, the last of which was during November 2019. The Turret, Vehicle Platform and Level 5 System development activities for the Fire Support Variant, Command Variant, Mortar Variant and Missile Variant are late due to Denel prioritising the completion of the Section Variant development.

The industrialisation of vehicle assembly at Denel Vehicle Systems has not shown any significant progress since the previous reporting period, mainly due to parts shortages as a result of non-payment of suppliers.

The delivery of the first Battalion consisting of 88-off vehicles was contractually scheduled to be completed by May 2019. This date was however not achieved due to delays in the development and industrialisation process, and the latest indicated delivery date for the first battalion is December 2024.

Armcor and the DOD has been engaging significantly at various management levels regarding the status of the programme and the impact of the significant delays that have been experienced to date.

Ground Based Air Defence System for the SA Army

The first phase of the Ground Based Air Defence System (GBADS) programme, namely the Local Warning Segment, has been delivered to the SA Army Air Defence Artillery Formation (the GBADS user) and is operational.

Phase two of the GBADS programme comprises two steps. The first step entails the upgrade of the Gun Fire Control System (GFCS) of the 35mm anti-aircraft guns currently in service with the SA Army Air Defence Artillery Formation. The second step entails the inclusion of the missile Short Range Air Defence system capability but is currently not funded. The gun upgrade provided for a radar-guided semi-integrated gun fire capability to the 35mm guns, which significantly enhanced the operational capability of these assets. During the reporting period, the outstanding spares from Denel Dynamics Integrated Systems Solutions were procured and delivered into stores. The Technical Publications and Training Documentation were completed and delivered on electronic media.

The digital interface between the GFCS and the next Higher Order User System (HOUS) was successfully integrated and tested (ready for future integration with GBADS Phase 3).

The third phase of the GBADS programme addresses the Battle Management, Command & Control, Communications, Computers and Information integration within the Mobile Air Defence System Regiment and to the HOUS.

The project has made reasonable progress on the design and development activities towards the establishment of the initial Product Baselines (iPBL) of the new product systems. This is despite being severely impacted by delayed Client Furnished Equipment (CFE), limited resources at Denel, and the impact of COVID-19. The new products systems comprise the Air Defence Operational Centre, to be fitted with a modern Air Defence Control System and Tactical Command & Control System integrated with the New Generation Tactical Communication System's equipment, new Ratel based Head Quarters, upgraded Thutlwa Radar System and the higher-order linking to Air Force Sector Control Centre. Although the System-level iPBL was delayed and is planned to be established during June 2021, most of the element's Prototype Builds were completed, thus facilitating the initiation of the stepped systems integration process.

The unavailability of a Gateway solution as CFE to the project, caused a delivery slip of 19 months as a result of a replacement development solution for the Gateway that had to be contracted.

Common Weapon Systems

New Generation Tactical Communication System

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

The communication system encompasses state-of-the-art transmission and information security techniques, whilst incorporating semi real-time data link performance characteristics as well as digital voice communication. Development of the various elements

of this system has been completed, and will result in the first tactical communications system in the world that will provide complete interoperability between all elements of the battlefield (Air force, Army, Navy, etc.) without making use of gateways or protocol.

Industrialisation of the four major sub-systems, High Frequency Radio system, the Very/Ultra High Frequency radio system, Intra Platform Communication System and the Short Range Communication System has been completed. All the manufacturing baselines have been established with the completion of the respective Production Readiness Reviews. Development of the communication management system has been completed, with extensive testing of the system on the Integrated Test Bench.

With the completion of the management system, which was on the critical path, design test and evaluation commenced and the field test was completed during November 2020. A number of observations were raised and were substantially resolved by March 2021. The Operational Test and Evaluation of the complete system is expected to commence during the last quarter of 2021/22 financial year.

The first two production contracts are nearing completion with follow-up production orders, either already in place or in process for operational urgent requirements.

Defence Industrial Participation

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

Armcor is currently managing 14 existing active DIP agreements resulting from capital acquisition projects; and one DIP agreement resulting from the procurement of pistols on behalf of the South African Police Services (SAPS).

Under the project to supply three inshore patrol vessels (IPVs), there were delays in concluding the DIP agreement due to the obligor objecting to the exclusion of some beneficiaries. As a result, the activities that were planned for execution in the

2019/20 financial year, were carried over for execution in 2020/21 financial year. The combination of 2019/20 and 2020/21 activities resulted in an over-achievement in the financial year under review.

Under the project for the acquisition of a hydrographic survey vessel, two of the four obligors have already registered DIP credits. However, the global COVID-19 pandemic has adversely affected progress during 2020, specifically where planned activities such as training, were dependent on international travel by the suppliers. Currently, the risk of non-performance against the total obligation and final completion dates is low and the main impact could be some delays on interim milestones. However, the situation remains unpredictable and will be monitored and re-assessed during 2021/22 financial year.

Tellumat, the contracted obligor for the DIP obligation related to the Radio Switching Network Equipment, was no longer in a position to fulfil the outstanding portion of the obligation and opted to pay the penalty when it defaulted on the contractual completion date of 1 October 2020. The payment of the penalty constituted Tellumat's obligation and liability towards Armscor.

The DIP obligation related to the establishment of a local dynamic test capability on the JAS39 Gripen, was successfully discharged by SAAB in July 2020, seven months ahead of the final completion date.

During the 2019/20 financial year, the nominated beneficiary for the Militarised Operation Earthmoving Systems was forced into liquidation and as a result, the planned performance had to be moved to the 2020/21 financial year. Subsequent to that, a new suitable beneficiary was identified and added to the DIP Business Plan through an amendment, which became effective on 10 February 2021.

The main contractor (Denel) for the New Generation Infantry Combat Vehicle Products System project experienced financial challenges and as a result, was unable to fully discharge its DIP obligation within the specified period. The DIP completion period was 31 March 2021. As a result, Armscor will be obliged to levy a penalty in terms of the DIP agreement concluded between the parties.

The DIP Policy A-POL-6000 was updated to be in line with the Defence Sector Codes that were first gazetted in November 2018 and updated in April 2019.

The status of the four DIP Portfolios as at 31 March 2021 is as follows:

Table 8: The status of the four DIP Portfolios as at 31 March 2021

Portfolio	Number of current contracts	Number of completed contracts	Total obligation (Rm)	Credits passed during current financial year (Rm)	Total credits passed to date (Rm)	Outstanding obligation (Rm)
SDPs	0	8	15 111	0	15 111	0
Active (SDA)	14	41	8 031	93	7 313	550
Police contracts	1	3	184	3	163	24
Total	15	52	23 326	96	22 587	574
Pro active	2	0	n/a	42	74	n/a
Historic Pro active	1	48	n/a	0	868	n/a

2.2.2 Research and Development

Armcor, through its Research and Development (R&D) Business Unit, is mandated by the Armcor Act to manage strategic capabilities and facilities.

The mandate and corporate goals of Armcor require the R&D Business Unit to ensure continuous growth of the strategic capabilities and facilities under its control. This includes defence operational and scientific research, test and evaluation services, and technology management, analysis and industrialisation, and innovation management services.

Test and Evaluation Facilities

The Test and Evaluation Facilities of R&D have large assets and testing environments and similar requirements where knowledge is interchangeable. The biggest client base for the Test and Evaluation Facilities is from international markets. Test and Evaluation Facilities comprises the following divisions:

- Alkantpan Test Range (Alkantpan)
- Gerotek Test Facilities (Gerotek), including
 - Gerotek Training
 - Gerotek Events
 - Sidibane
 - Gerotek Paardefontein Antennae Test Range

Defence Science and Technology Institutes

Through their various specialised divisions the institutes provide customised operations research and solutions for user communities in the South African

DOD. They also tailor other strategic and commercial products and services based on their primary defence technologies, and market these to finance sustainment of capacity and capability for defence purposes. Defence Science and Technology Institutes comprises the following divisions:

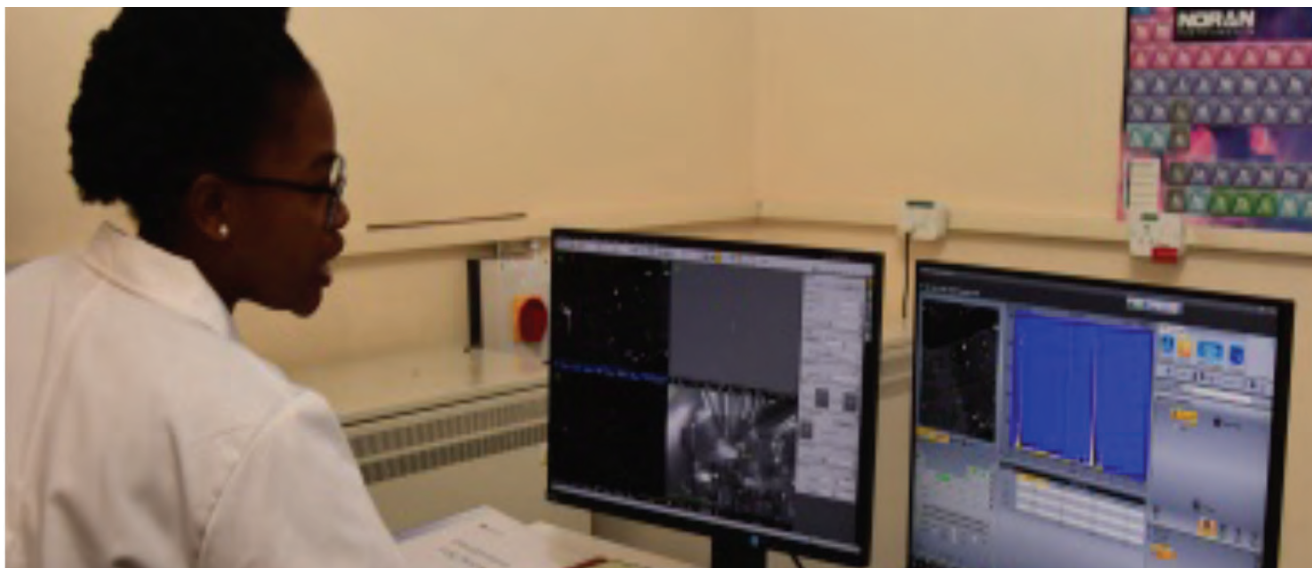
- Institute for Maritime Technology (IMT)
- Protechnik Laboratories (Protechnik)
- Hazmat Protective Systems (Hazmat)
- Defence Decision Support Institute (DDSI)
- Ergonomics Technologies (ERGOTECH)
- Fluid and Mechanical Engineering Group (Flamengro)
- Armour Development
- Intellectual Property Management Division (IPMAD)
- Technology Management, Analysis and Industrialisation (TEMANI)

R&D Support functions

R&D support functions renders services to the Test and Evaluation Facilities and the Defence Science and Technology Institutes. The support functions comprise the following divisions:

- Business Operations
- Business Support
- Finance

The services rendered by the R&D Business Unit are categorised in the following three functional areas:



Functional Area 1: Technology Management, Analysis and Industrialisation, and Intellectual Property Management divisions

- An independent centralised coordination and management role for technology acquisition, including the management and analysis functions, and technology commercialisation in support of the DOD is fulfilled by TEMANI.
- Intellectual Property acquired in the rendering of defence matériel acquisition services to the DOD is managed by IPMAD. The core service rendered include general IP management, IP exploitation, new venture management and contractual management of IP.

Functional Area 2: Test and Evaluation Institutes

- Ballistic tests for medium to large calibre weapons and ammunition are rendered by Alkantpan.
- Vehicle testing, advanced driver training and corporate events are rendered by Gerotek. Gerotek also provides the facility for vehicle testing.

Functional Area 3: Operational and Scientific Research Institutes including defence science and technology that perform R&D services for both the defence and commercial industries through centres of excellence

- Continuous research and development to maintain and advance armour protection technologies are rendered by Armour Development. The division also focuses on the establishment of an industrial capability to timeously satisfy the armour protection requirements.
- Chemical and biological research to support the South African Military Health Services (SAMHS) is the specialised services rendered by Protechnik. Protechnik is also giving technical support to the South African Council for Non-Proliferation of Weapons of Mass Destruction on aspects related to the implementation of the Chemical Weapons Convention (CWC).
- Ergonomics research, as well as ergonomics evaluation and testing services are rendered by ERGOTECH.

- The manufacturing and supply of respiratory filtering masks for protection against a majority of health hazards are done by Hazmat.
- Defence research, development, testing and evaluation of maritime systems are the speciality services rendered by IMT.
- Defence analysis, engineering and decision support, as well as operational research and capability analysis services to the DOD are rendered by DDSI.
- Computer-based simulation and failure analysis support and consultative services to programme managers are rendered by Flamengro. They furthermore render scientific and engineering support on the design, development and operational use of artillery systems.

During the reporting period, the R&D Business Unit had a total business portfolio of R415,7m. The total business portfolio included the following:

A grant from the DOD to a total value of:	R99,5m
Contracted work from the DOD:	R228,8m
Commercial contracted work to the value of:	R87,4m

The main contributing facilities to the R&D Business Unit's income were the IMT with R104,9m, TEMANI with R49,4m, Alkantpan with R48,0m, and Gerotek with R36,3m. Certain R&D divisions experienced a portion of planned work being either cancelled or postponed due to the COVID-19 pandemic.

Technology Management, Analysis and Industrialisation Division

The division performs an independent, centralised coordination and management role for technology acquisition of Category 1 defence matériel, facilities and services in accordance with the operational requirements of the DOD. TEMANI manages technology programmes in various areas to develop and maintain capabilities in South Africa, which would support the new and changing demands of the SANDF.

Management of Technology Development Programmes

The strategic intent for undertaking technology development programmes in various technology areas is to develop and maintain relevant technologies and

capabilities in South Africa, which will support the new and changing demands of the SANDF.

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

Management of Technology Development Programmes include:

- Landwards Technology - provides SA Army with scientific and engineering advice and technological solutions aimed at providing engineering knowledge to improve weapon systems in the domains of mobility, protection and firepower.
- Aerospace Technology - provides the SA Air Force with scientific and engineering support services in the aeronautics, airborne electronic warfare and guided weapons domains.
- Maritime Technology - provides SA Navy with scientific and engineering support services as well as risk reduction work for the new vessels being acquired. Research and development work is being conducted in the underwater communications, underwater warfare, underwater security and above-water warfare domains.
- Electronics Technology - provides ready technology base in electronics in order to provide scientific and engineering advice and technical solutions to all arms of services of SANDF in radar, electronic warfare, optronics, communications, and command and control domains.
- Support Technology - develops and maintains sustainable capability in chemical and biological defence, as well as ergonomics and body armour as part of soldier support.
- Technology-Based Special Programmes - Defence Engineering and Science University Programme and Defence Transformative Enterprise Development.

Intellectual Property Management Division

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

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

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

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

During the reporting period, two IP exploitation requests were supported by the Armscor Board of Directors and approved by the DOD.

Furthermore, in managing the IP, IPMAD is responsible for assisting the DOD with accounting for the DOD's intangible assets relating to IP within Armscor. This is done by annually preparing a Financial Asset Register for all DOD's intangible assets within Armscor in accordance with treasury's modified cash standard. The register is audited annually by the Auditor-General of South Africa. An unqualified audit for intangible assets relating to IP was obtained by the DOD for 2019/20 financial year. This is the sixth time that the DOD has obtained the same results.

Test and Evaluation Facilities

Alkantpan Test Range

Alkantpan was not spared the impact of the COVID-19 pandemic. The closure of international borders and the restriction on movement of the international clients saw a severe decline in testing during the reporting period. The situation required creative ideas and a couple of tests could be conducted where data was streamed live to foreign clients. This is, however, not always possible for all the tests as the input by the clients is often required for successful testing.

The COVID-19 pandemic and concerns continued to affect Alkantpan business, even after the restrictions were lifted and the borders were opened. Testing went down by 25% compared to the previous year (124 tests conducted in 2019/20 financial year compared to 93 tests conducted in the 2020/21 financial year).

Other than COVID-19, the main challenge for Alkantpan was the lack of support of critical mission equipment by Denel as the Original Equipment Manufacturer due to Denel's financial situation. Alkantpan has been challenged especially by the situation where spares are not readily available from Denel.

Certification continuation at Alkantpan of the following standards was recommended by the applicable auditing body:

- ISO 9001:2015 Quality Management System, which demonstrates that Alkantpan has the ability to consistently provide services that meet customer and regulatory requirements
- ISO 14001:2015 Environmental, which is used to enhance the environmental performance of Alkantpan
- ISO 17020:2012 for the approved inspection authority, type B allowing for inspection of process and equipment employed by Alkantpan during testing.

Gerotek Test Facilities

Providing the SANDF with internationally accredited component, vehicle and other system test solutions with the emphasis on technical excellence and affordability is the prime objective of Gerotek. Gerotek endeavours to ensure the availability of well-maintained test facilities to grow the value proposition of Gerotek to other government and commercial sectors. Gerotek also developed testing, advanced driver training, corporate events, restaurant and conference services in support of the value proposition to all Gerotek clients. These services are offered by the following Gerotek divisions:

- Gerotek Testing provides ISO 17025 international accredited test services. Services include vehicle, product, environmental, antennae and electromagnetic compatibility testing.
- Gerotek Training offers SASSETA and TETA accredited advanced defensive, high performance and off road driving courses.

- Gerotek Events offers corporate functions, vehicle launches, conferences, team building and client specified functions and events.
- Sidibane support all the Gerotek divisions with catering services.

COVID-19 has had a drastic influence on Gerotek's performance during the 2020/21 financial year. Major projects and income streams did not realise as a result of the pandemic. These include income from European vehicle manufacturers who use Gerotek for hot climate testing and local corporates, government and other industries to the value of about R11m.

The period of low demand provided time to address some of the long term sustainability issues that Gerotek faces. The situation forced Gerotek to be innovative and generate income from other sources. The following were done:

- Installation, commissioning and operation of a multi-million rand state-of-the-art vibration and shock test apparatus, which address client requirements in terms of being able to test according to the latest specifications. Vibration and shock testing is part of a basket of tests including other environmental tests. Availability of this equipment improves the income stream not only of vibration tests but also that of other environmental tests.
- Negotiations were conducted with important role players to improve relationships and pave the way for more effective and efficient business processes to facilitate more revenue from these clients. These include the negotiations with Gauteng Department of Roads and Transport, Johannesburg Water, South African Bureau of Standards (SABS), and the DOD to increase hosting of military trainings.

Effective and efficient completion of the above will pave the way for a better environment to generate revenue and client satisfaction.

Gerotek, despite COVID-19, hosted the prestigious CARS.COZA CONSUMER AWARD test days, which involved motoring media and marketing staff of most car manufacturers and distributors in South Africa. The awards function, which is normally a large gathering of all major role players in the motoring industry and media could, due to COVID-19, not take place but

instead a television broadcast was done within which Gerotek received extensive positive exposure on different television channels.

Operational and Scientific Research

Armour Development

Armour Development makes use of the latest available materials to design and manufacture concept armour systems. These concept armour designs are tested against light and medium calibre weapons and explosives under controlled conditions. The division is funded through the Defence Research and Development Board (DRDB), the transfer payment and commercial income. The main clients are the DOD and the SANDF. The commercial work has been done for ADG Mobility (Pty) Ltd, BPT, CSIR, Pronex Engineering, Paramount Land Systems, Pronex Engineering, SVI Engineering and Swedish Steel AB. All the amour protection and commercial work milestones on Armour Development that could be used for current and future armour systems for the DOD and commercial clients were achieved, completed and delivered.

Armour Development rendered a ballistic testing service to the commercial clients and defence industries to develop, test and certify armour systems that are made available commercially by defence companies. This has contributed substantially to the bottom line. The certifications of the armour systems allow these companies to market their products locally and internationally. In addition, Armour Development has a wealth of knowledge in armour design and offers design review on armour for vehicular applications in the industry.

Protechnik Laboratories

Protechnik conducts project work in the field of chemical and biological (CB) defence on behalf of the SANDF. The institute also provides technical support to the South African Council for the Non-Proliferation of Weapons of Mass Destruction on aspects related to the implementation of the Chemical Weapons Convention (CWC). South Africa is a signatory to the CWC, an international statute that prohibits the development, production, stockpiling and use of chemical weapons.

Protechnik was established as the primary research institute regarding CB defence for the DOD. This confers a “sovereign” status to Protechnik as a CB

research and development institution. The institution is the only facility in South Africa that is regarded as a “Single Small Scale Facility - SSSF” according to regulations of the CWC. Under these regulations, the institution is under periodic inspection by the Organisation for the Prohibition of Chemical Weapons (OPCW), an institution responsible for overseeing the implementation of the CWC obligations by member states.

Protechnik participates in the annual OPCW Proficiency Test (PT), which tests the competency of world laboratories in the identification of unknown, spiked CWC related chemicals in different environmental matrices. During the reporting period, Protechnik successfully identified all unknown CWC-related chemicals in an OPCW PT. In the event that Protechnik achieves a similar result in the next OPCW PT (October 2021), the institution will be the only OPCW-designated laboratory in the African continent for the analysis of CWC-related chemicals.

The reporting period also witnessed the outbreak of COVID-19 that has since affected more than 140 million people globally, and in the process, causing devastation to world economies.

In a national effort towards reducing and controlling the spread of COVID-19, Protechnik designed, tested and evaluated hand sanitiser and surface disinfectant formulations with strict adherence to guidelines from the World Health Organisation (WHO). With increasing demand for the products at the peak of the COVID-19 pandemic, the pilot manufacturing facility at the Technopark site had to be upgraded and semi-automated. This resulted in an 80% increase in production capacity from 960 litres of product per eight (8) hour shift to 5 400 litres for the same period.

The products are available in different configurations and are being distributed to various DOD Arms of Service such as the SAMHS. They are also distributed to other state organs such as the SAPS, the Department of Health and the Gauteng Roads and Transport Department, among others.

The total revenue realised from this effort in the 2020/21 financial year amounted to R10.2m.

In addition, Protechnik has been, and continues to conduct tests to evaluate the effectiveness of particle filtering masks and surgical masks, which are used to protect against COVID-19. This was after successful collaborative discussions with the SABS and the

National Regulator for Compulsory Specifications (NRCS) to allow timeous approval of these masks before they are used by frontline workers, medical facilities and the general public.

The total revenue realised from this effort in the 2020/21 financial year amounted to R4.3m.

Ergonomics Technologies

ERGOTECH still remains a leading ergonomics research institute providing ergonomics solutions to the SANDF and other state organs. The various methods deployed by ERGOTECH have evolved over the years to provide solutions which are in line with world standards and best practice, but also take the South African context into consideration.

The highlights of the research conducted during the reporting period can be summarised as follows:

ERGOTECH investigated the feasibility of applying the finite element method to human anatomical structures and software packages available for finite element analysis. The multivariate analyses techniques for anthropometry design identified in the previous financial year were validated. The comparison of the one dimensional and three-dimensional anthropometry data revealed that more anthropometry data is required before the traditional hand measurements can be replaced with the data obtained from the scanners. A methodology was proposed for the development of the SANDF virtual equipment library for digital human modelling.

In response to the COVID-19 outbreak, the Department of Employment and Labour urged employers to implement workplace plans that allow for offices to return to operation without increasing the risk of exposure to the virus. ERGOTECH evaluated various work spaces to ensure that they complied with the guidelines particularly looking at mechanical and artificial ventilation provided in open plan offices.

The equipment used for the collection of strength data from the SANDF was upgraded. This will allow for more accurate and efficient collection of data in the future. The biomechanical modelling focused on developing and verifying a methodology for the analysis of the Synertial Motion Capture Suit for the collection of data in more realistic military scenarios, rather than a controlled laboratory. A further methodology was developed for the virtual modelling and simulation through the use of the finite element method. This

capability will allow ERGOTECH to virtually test and evaluate various equipment designs for the alleviation of pressure related musculoskeletal disorders. Lastly, in collaboration with Flamengro, ERGOTECH conducted research into the response of body armour to blast wave loading.

Hazmat Protective Systems

Hazmat manufactures and markets a comprehensive range of respiratory products. Hazmat started its business by supplying Full Face Masks, Chemical and Biological Warfare (CBW) filters to the DOD. No local manufacturer of respiratory products was available and the establishment of this manufacturing capability was identified as strategic (sovereign) to ensure availability of these controlled items to the DOD.

Since its establishment in 1992, Hazmat has commercialised its product offerings and revenue has been mainly generated from commercial sales. Hazmat manufactures and sells its own established filter canister and cartridge brand. Cartridge filters are also branded and manufactured for major Personal Protective Equipment (PPE) distributors. This is an indication of the confidence the PPE market has in Hazmat's manufacturing ability and the exceptional quality of the filters produced. Hazmat has maintained its ISO 9001:2015 Quality Management Systems Certification.

The COVID-19 pandemic has led to an increase in the demand for locally manufactured filters due to the initial inability of overseas suppliers to supply products as most countries imposed export restrictions on various respiratory products. This provided Hazmat, as a local manufacturer, with an opportunity to increase sales through manufacturing and increasing stock levels. The market has reacted with an increase in volumes and it is anticipated that future sales will return to normal as these restrictions are lifted.

The P3 (high efficiency particle filter) cartridge, introduced in 2020, was well received and has slowly started to contribute to sales. Hazmat has also managed to export a significant amount of half masks and cartridge filters through its established distributor network into Africa. Africa is still seen as a future market that can be exploited.

The activated carbon impregnation plant provides Hazmat with a quality product used in the manufacturing of gas and vapour respirator filters of a high standard

that exceed local and international specifications. The carbon plant gives Hazmat a competitive advantage as Hazmat is the only company in South Africa impregnating activated carbon for military and commercial applications. A major service on the carbon plant and resulting improvements are planned and budgeted for early in the new financial year as part of continual improvement initiatives.

Hazmat is a sustainable entity that can serve the needs of government departments, as well as its commercial stakeholders. During the reporting period, Hazmat exceeded its budgeted sales with approximately 10% to achieve annual sales of R17m.

Institute for Maritime Technology

IMT is recognised as the professional body established to provide technology research and development and support services in various technology domains. IMT's capabilities have been developed over many years to meet the growing demands of not only the SANDF and other members of the maritime community, but also commercial clients.

IMT experienced many challenges during the reporting period. For most part of the year the Cape Metro was declared a COVID-19 hotspot. IMT had to adopt a hybrid working routine, which impacted normal operations. IMT also implemented and maintained best COVID-19 practices and have created a safe working environment for employees and clients.

In spite of these challenges IMT successfully achieved its targets for the year. Some of the highlights that stand out include:

- IMT established a Situational Awareness Centre (SITAC) at Naval Base Durban. SITAC East provides the SA Navy with a capability to monitor the harbour, ocean and key point facilities in Durban.
- The IMT developed VISTANET Maritime Domain Awareness (MDA) system that provides the SA Navy with a recognised maritime picture of the South African coastal area. The MDA Centre West was formally handed over to the SA Navy in March 2021.
- IMT produces dual purpose technologies for the commercial market. The Ultrasonic Broken Rail Detector (UBRD) System has seen constant development and refinement to become the leading broken rail detection technology in the world. The

5th iteration of the UBRD System has concluded its development. The UBRD Version 5 system is currently being marketed to international clients.

Defence Decision Support Institute

DDSI renders the following services to the SANDF and other South African government departments:

- Defence capability analysis, environmental scanning, operational data analysis, operational research services, policy development and/or support, regional analysis and strategy development support.
- Configuration and data management, logistics and systems engineering support.
- Products system management and stock management within the DOD.

DDSI is mainly funded through Memoranda of Agreements MoAs concluded with the Directorate Products System Management (Dir Army Prod Sysman) under Chief Army, Directorate Capability Development under Chief Joint Operations and Military Police (MP) Division under Provost Marshall General. The revenue is generated through different transfer payments and through Government Orders (GO) and Armscor orders concluded with DDSI.

DDSI was significantly impacted by the reduction in the MoA funding emanating from the budget cuts within the DOD.

Decision Support Services and Staff Support Services were rendered to Capability Development under Chief Joint Operations and Dir Army Prod Sysman under Chief Directorate Army Force Structure respectively. This involved ensuring that the DOD and SA Army matériel is ready and in line with the system-readiness requirements to deploy internally and also beyond the borders of South Africa. The main responsibility is to ensure that products system are available and maintainable during the force preparation and force employment at minimum expenditure of resources.

All the planned work of the MoA for the MP Division, Joint Operations Division and SA Army were completed and invoiced for the 2020/21 financial year.

The project work from the Defence Policy Strategy and Planning Division through Defence Sec project GO on the Research and Analysis (R&A) domain was completed and invoiced during the 2020/21

financial year. The R&A domain was tasked by Joint Operations to support the current and future SANDF Force Planning activities during the COVID-19 and South African lockdown period. The executed COVID-19 work sparked some interest from the Directorate: Integrity Management in the Gauteng Office of the Premier for decision support work. All the work contracted through GO and secondary transfer payment MOA was completed and invoiced during the reporting period.

Fluid and Mechanical Engineering Group

Flamengro offers an additive manufacturing, computational mechanics, test measurement and software development capabilities to its main client, the DOD, as well as to the commercial clients in the defence industry. This type of work involves investigation on Weapon Systems Launch Response, Integrated Ballistics Simulation, Artillery Range Extension Mechanisms, Ammunition Technology, 3D Printing Hybrid Rocket Motor Grain and Weapon Mounting Dynamics.

In the reporting period the following can be highlighted:

- A state-of-the-art test facility for the testing of specialist materials, sensor calibration, blast wave testing, and impact testing for armour was commissioned. The South African defence industry lacks material data for defence materials subjected to high strain rates. This type of work seeks to solve this problem by performing both tensile and compression test through compressed air driven impact tests. Furthermore, the facility is capable of conducting impact testing for armour materials and

blast wave tests on mannequins for ergonomics purposes.

- A ramjet technology demonstrator on the 76-mm calibre projectile with the sole purpose of increasing the projectile's range was successfully designed, developed and tested. The purpose of this DRDB funded technology was to enhance the range of the 76-mm projectile. The increase of the range has potential of increasing the lethality and reaching targets in further distance cheaply compared to the 155-mm in a similar application scenario.
- A pre-fragmented 30-mm projectile in partnership with local manufacturers (Denel Rheinmetall – RDM, Denel PMP and Reutech Solutions) was successfully designed, developed and tested. The 30-mm projectile is used by many defence forces throughout the world. In an effort to improve this projectile, Flamengro developed two versions of this projectile to be integrated in many weapon systems. This development has now surpassed technology readiness level 4.

In order to strengthen this capability, Flamengro appointed two permanent junior engineers and a junior scientist. They have been trained at Flamengro as Talent Development Programme trainees for two years.

2.2.3 Armscor Dockyard

Armscor manages and operates the Naval Dockyard as the SA Navy's third-line maintenance and refitting authority.

The Dockyard provides maintenance and repair services to the SA Navy on various configuration product systems, ranging from submarines, frigates,



tugs and small craft to support vessels, in accordance with the Dockyard's available capacity and capability. The services cover both planned and unplanned projects.

The Dockyard is the SA Navy's maintenance, repair, overhaul and modernisation authority responsible for the upkeep of the SA Navy Fleet. It is one of South Africa's strategic national capabilities, where the country's naval defence capabilities are housed.

Its primary responsibility is planned maintenance, facilities upkeep and provisioning of strategic support services including docking services, power supply and other essential services. Government priorities continue to shift focus from the DOD budget to other needy areas. This, coupled with the economic downturn, poses challenges to the execution of the mandate of the Dockyard.

The Dockyard is mandated in terms of the service level agreement with the DOD to provide the following services to the SA Navy:

- The management of the Dockyard as a strategic facility of the SA Navy to ensure available systems to the SA Navy in support of the DOD
- The provision of support services to satisfy the SA Navy fleet requirements.

This mandate has to be executed in support of the following operational services:

- Third line maintenance, repair and refitting of the SA Navy fleet
- Operational defects (Opdefs)
- Docking and essential defects (DEDs)
- Upgrades to and modernisation of the SA Navy fleet.

The primary mandate is to ensure that the Dockyard is transformed into an efficient, effective and an economically viable operation for fleet maintenance support to the SA Navy, whilst the secondary mandate is to utilise spare capacity and exploit commercial opportunities to the fullest.

Infrastructure upkeep

The planning and execution of maintenance and repair plans in Simon's Town and Durban receives high priority to ensure effective service delivery. Good progress was made in terms of the listed capital equipment

items that will ultimately contribute to the facilities improvement initiatives. The dry dock, lift platforms and other equipment remain essential in support of the required maintenance of the SA Navy fleet. It is critical that these strategic assets be maintained in operational conditions with effective maintenance scheduling and planning of utmost importance.

Project Management

The Dockyard's performance is based on a Memorandum of Agreement between the SA Navy and Armscor. This is reviewed annually, and signed off against the mutually agreed milestones at the end of the reporting period. In this regard, the Dockyard met all its obligations and performance requirements. All projects were delivered within the mutually agreed milestones.

Projects Highlights

The Dockyard successfully provided maintenance and repair services to the SA Navy, even in the case of unscheduled dockings, with the focus on various configuration products' systems ranging from tug boats, small crafts, frigates, submarines and support vessels. Apart from this, a number of SA Naval projects were undertaken during the reporting period, both planned and unplanned, which have been successfully completed.

Submarines

SAS Manthatisi: DED

During the reporting period, Manthatisi underwent engineering changes (EC 98/99/100) and systems upgrade to enhance and improve the boat's operational ability. The maintenance activities took place in SHED 3 and the boat was successfully undocked to conduct trials and systems testing, which was a success. The boat is currently operational and will be in the DED during the second half of the year 2021 for further scheduled maintenance and repairs.

SAS Charlotte Maxeke (Refit)

Procurement of critical spares is 98% complete on both orders. This precedes activities that will allow the overhauling of the spares that were stripped from the submarine and also refitting.

Additional funding to complete the refit of the boat by end of calendar year 2023 has been made available by the SA Navy. The support and collaboration with local industry will be maximised in achieving the objective for this project.

Frigates

SAS Mendi 2013: DED

After eight years of being under a maintenance period, the vessel managed to conduct its first test and trail on the diesel generators that were installed by Dockyard. The vessel continues to conduct other tests set to work and completed systems integration makes the vessel operational and sea ready. Sea trials are now in progress to get the vessel operational.

SAS Spioenkop EC53

The vessel successfully conducted a set to work of the DGs (starboard engine) that was installed with the support of the OEM. Additional to that, systems interface and integration testing is ongoing. The vessel is operational.

Site and Facilities Services

The strategic intent of the Site and Facilities Division is to provide maintenance and operation of the docking facilities and to ensure utilities supply services in an efficient and effective manner, while engaging with customers, the SA Navy and commercial clients.

The Dockyard is equipped with a 60m long Synchrolift with a lifting capacity of 2 300 tons. During the period

under review, the SAS Manthatisi was docked and undocked thrice for various maintenance activities and the strike craft. SAS Makhanda was docked twice for hull surveys and maintenance repairs.

The dry dock facility was in full use during the reporting period. The SAS Spioenkop, SAS Protea, SAS Isandlwana and SAS Mendi were all docked during the reporting period. The structural integrity of the cranes on the dry dock remained a concern during the reporting period. Funding has been received for the commencement of work on the Overhead Gantry crane in the new financial year.

The Generating Station can generate up to 7MW of power and is equipped with 60Hz frequency convertors required for the SA Navy Vessels. During the reporting period, frequency converter No.4 was refurbished and is currently online. The sea and deionised water supply plants were fully operational.

Preventative maintenance through structured maintenance plans is still ongoing to ensure the continuous operation of the synchrolift and dry dock. The age of the equipment compounds the inability to return the equipment to a safe operating standard. As a result, the preventative maintenance programme has been rejuvenated, focusing on maintenance of critical areas with a secondary drive to manage obsolescence.

Operations

Erection of the Grit Blasting Booth

The Operations Division is currently implementing several renewal strategy initiatives. One of those is



the Grit Blasting Booth that can accommodate large vessel components and was commissioned in March 2021. This will be of great benefit to the Dockyard Operations by enhancing blasting efficiency. The Blasting Booth will also promote the preservation of the environment as the grit is recycled and disposed in a controlled manner.

Engineering Services

The Engineering Services Division functions within the Dockyard. The division serves as a professional scientific and engineering solutions partner that responds to the dynamic changing engineering environment and maintenance needs of the SA Navy. This service is being met through research and development, analysis, tests and continuous evaluation with a view to do it effectively, efficiently, economically and holistically.

The 2020/21 financial year was challenging due to the COVID-19 and operational requirements move slower than usual.

However, core functions remained the same and the division strove to maintain a high level of competency to deliver services primarily to the SA Navy and internal Dockyard stakeholders.

One of the strategic initiatives (within the Engineering Services Division) was to commission new equipment in order to build and strengthen in-house capabilities. It is through this equipment, among others, that the engineers, scientists, and technicians were able to service a large number of projects and/or tasks such as the project of the SAS Protea, SAS Amatola, SAS Spioenkop, SAS Mendi, SAS Drakensberg, submarines, OPVs and others.

A large number of condition-based maintenance (applied chemistry and vibration engineering analysis), metallurgical investigations, non-destructive testing, and surveying and corrosion investigations were done and reports were submitted to the relevant clients. Fundamentally, a proactive approach adopted by the Engineering Services Division helps to control the safety and economy of all SA Navy platforms and/or vessels, as well as for the Dockyard operations.

Human Resources

Artisan Training and Development

The Dockyard heeds the call of government regarding the lack of qualified artisans in the country to sustain industries and support economic growth. The Dockyard has been losing critical skills due to an ageing workforce and finding successors became a challenge.

Since the Dockyard revived its Artisan Development Programme to help solve the countrywide challenge, there has been significant improvement in the turnaround time on artisan recruitment in some trades within the Dockyard. This programme has been used as a skills transfer mechanism by experienced artisans. To date, it has produced quality artisans.

The Dockyard promotes artisanship as a career, thus contributing to the NDP, Vision 2030. During the reporting period, Dockyard produced 37 qualified artisans through its apprenticeships. In addition, 2 Dockyard employees qualified through Artisan Recognition of Prior Learning in the following trades:

Qualified Apprentices:	(5) Boilermakers
	(1) Joiner
	(6) Electrical Fitters
	(7) Electricians
	(7) Mechanical Fitters
	(6) Shipbuilders
	(1) Sign writer / Painter
	(3) Welders
	(1) Rigger
Artisan Recognition of Prior Learning:	(2) Artisan Painters

SUPPORT FUNCTIONS



2.3 SUPPORT FUNCTIONS

2.3.1 Business Assurance

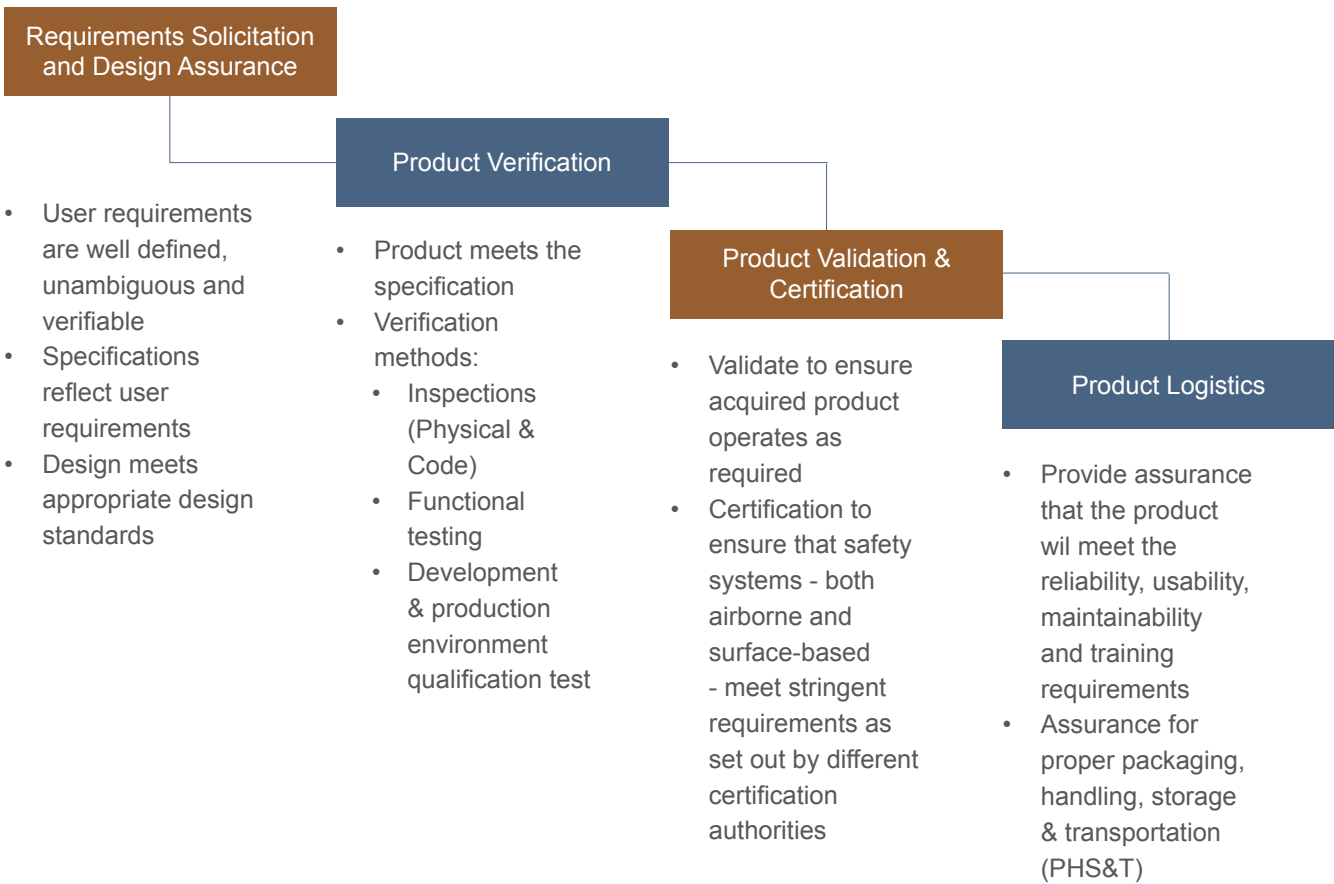
Quality

The primary roles of the Quality function are: corporate quality management, quality engineering services and quality assurance services to Armscor, the DOD and other clients by means of General Quality

Assurance agreements. This consists of both the technical and the audit functions for assuring the technical integrity and quality management processes during the acquisition phases of programmes and projects, and the development of internal processes. The Quality function is involved in all aspects, from the User Requirement Statement stage through to commissioning.

QUALITY ASSURANCE

Capability & Service Offering



Armcor's mandate, amongst others, is to advance the Corporation's broad-based black economic empowerment (B-BBEE) goals and objectives in compliance with National Government's policies and strategies. Furthermore, Armcor acknowledges that to be an effective acquisition agency of the DOD, it must not only comply with international law and arms control legislation, but also support the national arms control authority to improve arms control legislation.

The arms control legislation facilitate the flow of defence matériel for the benefit of the SADI and ensures that Armcor conducts its business in compliance with South African defence trade legislation, as well as defence export controls of supplier countries.

Armcor's Quality function follows a multi-dimensional approach to quality management, and entails the following services:

- **Quality Management System** – Development and maintenance of the corporate wide Quality Management System (QMS), in accordance with recognised international standards and best practices.
- **Supplier Quality Management** – Management of supplier performance throughout the acquisition and supply chain process to ensure delivery of defect-free products to the client / end user.
- **Supplier Source Selection / Tender Process Assurance** – Quality assurance of the tender / supplier source selection process to ensure adherence to SCM practices and related treasury regulations.
- **3rd Party / Government Quality Assurance** – Product quality assurance service provided to all interested parties to provide an independent verification of the product's conformance with specification.
- **Safety, Health and Environment (SHE)** – Development and maintenance of the Corporate SHE management system to ensure compliance with statutory and regulatory requirements.

Quality Management System

The Corporation has established a QMS that conforms to the requirements of ISO 9001:2015

Standard (Requirements for QMS). To keep the international recognition and competitive edge, Armcor laboratories and testing facilities are further certified or accredited to other international standards. Alkantpan is accredited in accordance with ISO/IEC 17020:2012 for the inspection of explosive facilities, equipment and processes. Gerotek is accredited for electrical, mechanical, physical, performance and electromagnetic compatibility (EMC) testing, in accordance with ISO/IEC 17025:2005. Protechnik is also accredited in accordance with ISO/IEC 17025:2005, but for chemical and physical analysis.

During the reporting period, the Corporation maintained its certification under ISO 9001:2015 at some of its facilities, following successful completion of the annual surveillance audits. There were some findings raised at Alkantpan and Protechnik during the re-certification audits. Corrective action plans were developed to address non-conformance and submitted to the auditors.

Supplier Quality Management

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

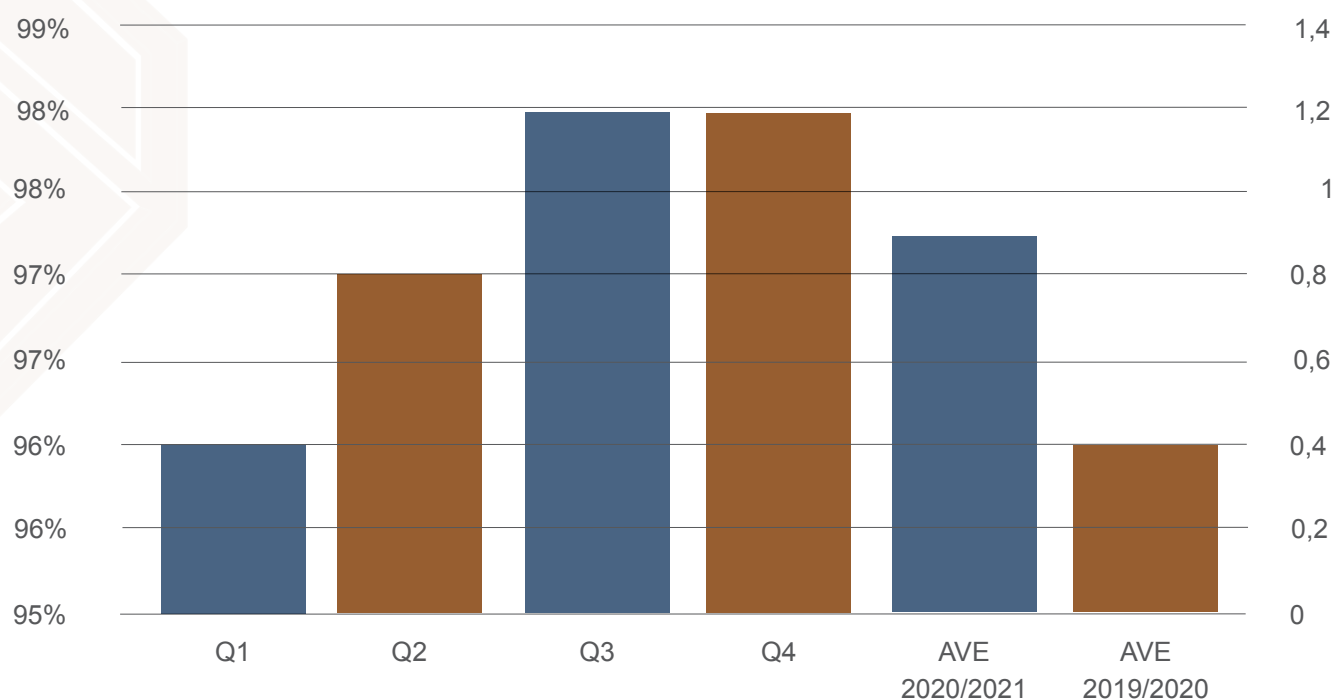
The performance of suppliers is monitored through an in-house developed tool called Armcor Contractor Quality Index (ACQI), which takes into consideration factors relating to the following:

- Supplier's (QMS) status
- Inspection Release Certificate (K225) and Rejection Notes (K226) issued
- Deviations/Concessions Permit (K228) issued
- Corrective Action Requests (K229) issued.

During the reporting period, a large percentage of suppliers performed well and achieved an average ACQI rating of 97%, as reflected in the diagram below. This represents an increase of 1% when compared with the previous financial year's average.

Figure 8: Armscor Contractor Quality Index

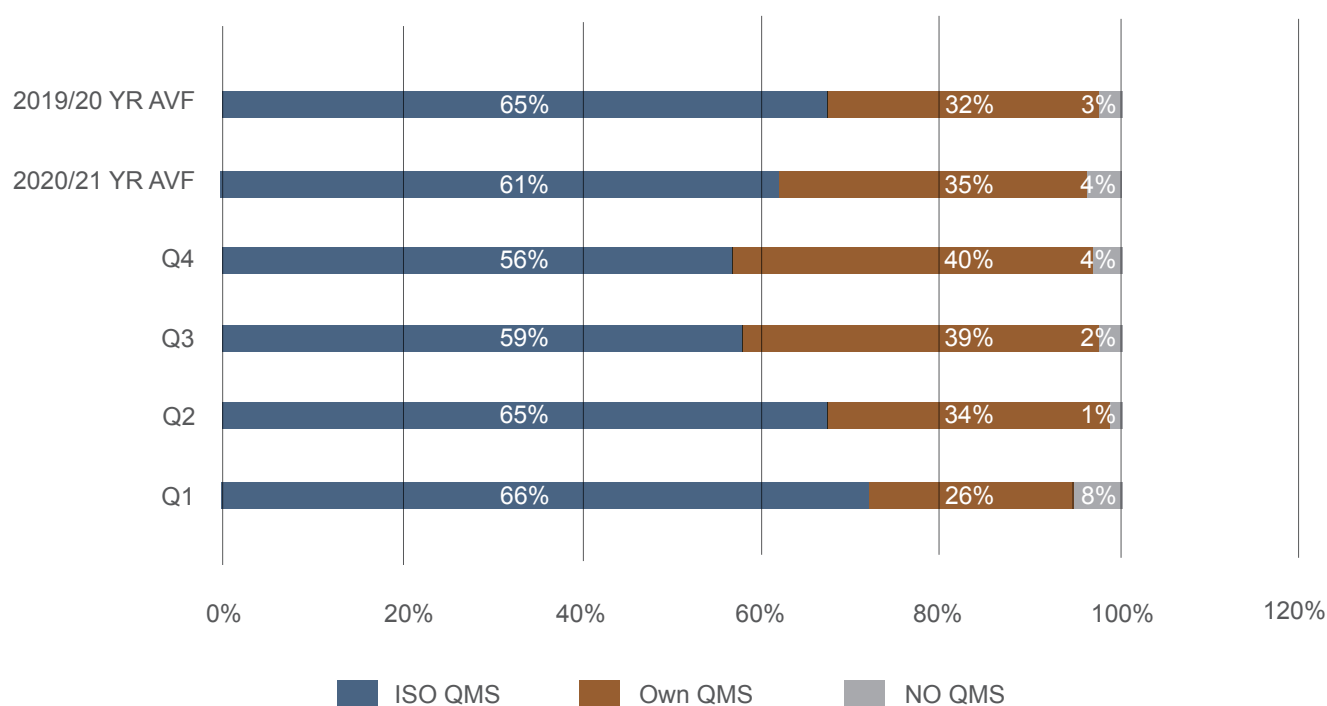
ACQI Ratio: April 2020 to March 2021



While the general performance of suppliers was better than the previous financial year, a slight decrease of approximately 1% on the overall supplier QMS performance was evident. As reflected in Figure 9, the number of suppliers with no QMS increased from 3% to 4% when compared with the previous financial year.

Figure 9: Armscor Contractors QMS Status

SUPPLIERS QMS STATUS: APRIL 2020 - MARCH 2021

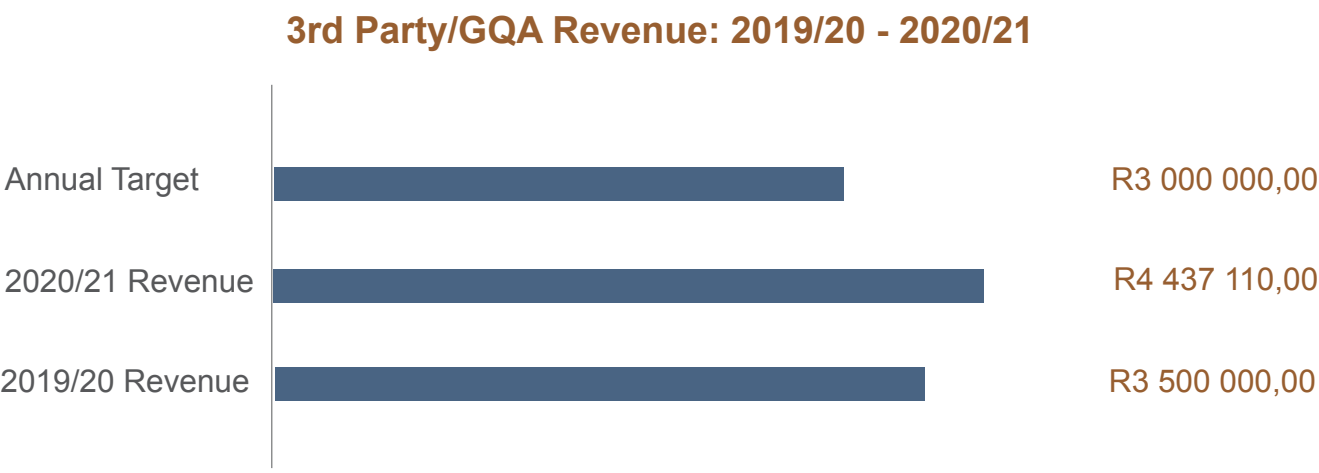


3rd Party/Government Quality Assurance

Armcor provides a third party or Government Quality Assurance (GQA) service to all interested parties, including other government departments, and overseas companies that acquire products in the local defence market. The third-party/GQA services are offered at a reasonable fee, and the income generated contributes towards both the sustainability of the Corporation, and continual skills enhancement of the Quality Team. GQA services are rendered by a team of quality representatives with the requisite technical skill and knowledge of military products and systems.

The GQA clientele consists of both local and overseas clients. Locally, major clients include SAPS, Department of Correctional Services, Reutech Communications and Rheinmetall Denel Munition (RDM). During the reporting period, the GQA generated revenue of approximately R4,3m and exceeded the annual target of R3m as well as last year's revenue of R3,5m.

Figure 10: 3rd Party/Government Quality Assurance



Supplier Source Selection/Tender Process Assurance

The Corporation provides a quality assurance service to mitigate against the risk associated with supply chain management. This service seeks to ensure that the process for appointment of suppliers is competitive, fair, equitable and transparent. It also seeks to ensure that the process is done in accordance with treasury regulations and SCM practices. A process assurer, independent of the Bid Specification and Evaluation Committee monitors the process, and issues a Process Assurance (PA) Report on the outcome thereof. During the reporting period, approximately 91,7% of the process assurance requests received were processed with no observations noted.

Safety, Health and Environment

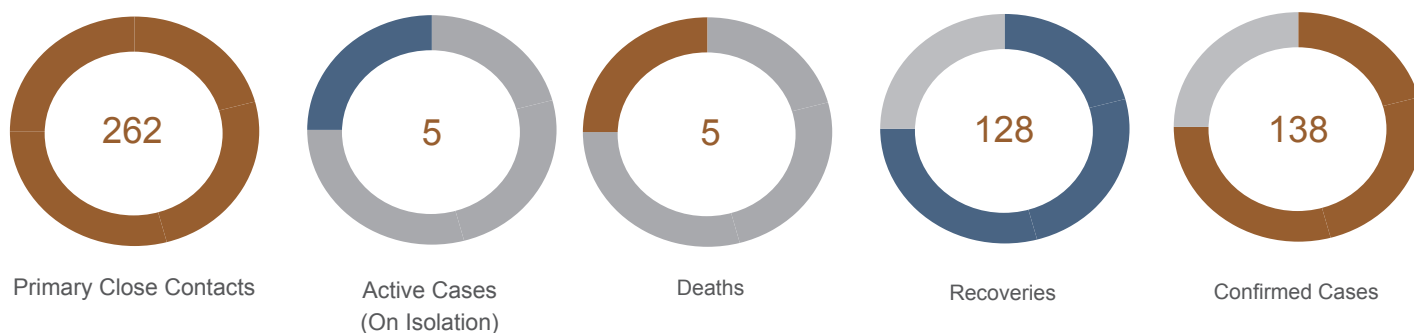
The management of SHE matters is a crucial component of the Corporation and is largely regulated by statutory requirements. To ensure compliance to these requirements, the Corporate SHE Division conducts audits on a quarterly basis across all Armscor sites, and ensures that corrective action measures are implemented to address any non-conformance that may arise. In accordance with the Corporation's SHE policy, a report on SHE governance and performance is presented to top management on a quarterly basis for review. During the reporting period, 62% of the findings identified in the previous SHE legal compliance audit were resolved. The remaining findings are scheduled for completion before the next baseline audit, due to take place before end of the 2021/22 financial year.

To reduce or prevent SHE related incidents in the workplace, SHE awareness and training sessions are conducted in accordance with each site's training needs. The Corporate SHE Division has embarked on an intensive training and induction programme to promote SHE awareness across all levels in the Corporation. During the reporting period, EXCO members, senior management team and SHE practitioners across all facilities were inducted, while the rest of the employees are scheduled for induction the next financial year. Following the COVID-19 outbreak in March 2020, Armscor's SHE awareness and training programme was adjusted to include COVID-19 related training. The aim is to increase awareness and combat the spread of the virus in the workplace.

In accordance with the government's disaster management and COVID-19 regulations, the Corporation developed and submitted a COVID-19 Workplace Preparedness Plan to the Department of Employment and Labour. The plan included a COVID-19 specific Hazard Identification and Risk assessment (HIRA). It outlined mitigation measures to be adopted to reduce the impact and spread of the COVID-19 infection in the workplace, which included staff rotation / reduction, use of PPE and remote working arrangements, where possible. To this end, the Corporation's effectiveness in mitigating and reducing infection in the workplace is reflected in Figure 11. Only 262 primary contacts were identified from 138 confirmed cases, which translates to an infection rate of 1,89 for every case confirmed.

Figure 11: COVID-19 Statistics

COVID-19 STATISTICS 31 MARCH 2021



In accordance with the Corporation's SHE policy, Armscor's SHE Management System is based on the requirements of ISO, with some of the facilities certified to both ISO 14001 and 18001 standards. During the reporting period, Armscor's certification to ISO 14001:2015 Environmental Management System (EMS) standard at its test facilities in Alkantpan remains valid, following the successful completion of the re-certification audit. Gerotek's SHE Management System was due for re-certification in March 2021, but due to unforeseen circumstances the audit was re-scheduled to May 2021.

Corporate Compliance

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

Corporate Compliance consists of the following divisions: Legal Services, Arms Control Compliance, Black Economic Empowerment (BEE), and Compliance and Risk.

Legal Services

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

Litigation

The following litigation matters are addressed in the Directors' Report.

Beverly Securities
Quaker Peace Centre
Patria Land OY

Arms Control Compliance

The main objective of the Arms Control Compliance Division is to develop, implement and maintain processes and procedures that are necessary for the execution of arms control compliance. The function is aligned to the National Conventional Arms Control Committee Act (Act No. 41 of 2002), Non-Proliferation Act (Act No. 87 of 1993), Firearms Control Act (Act No. 60 of 2000), Explosives Act (Act No. 26 of 1956) and requirements of supplier countries.

Arms Control Asset Tracking System

The Arms Control and Asset Tracking System (ACATS), an in-house developed system, is operational and is continuously improved to ensure that it aligns with current operational requirements and meets compliance obligations.

During the reporting period, several enhancements were initiated and implemented on ACATS such as the following:

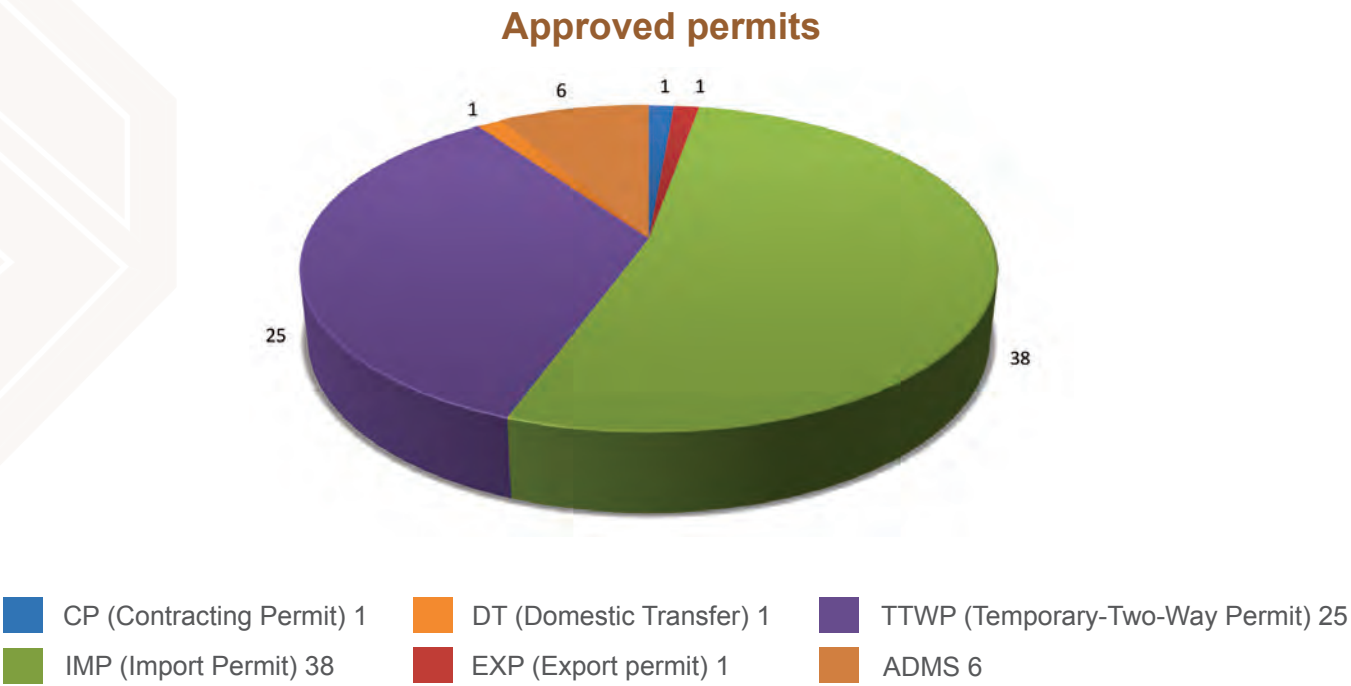
- Window to apply for Armaments Development Manufacturing and Services (ADMS), Contracting and Marketing permits
- Window to capture the issued permit
- Window to apply for amendments to existing permits.

In addition to this, all the letters relating to new areas were reviewed and new changes were successfully implemented on the live system.

Status for Permit Applications

There were 72 permits approved during the reporting period and the breakdown is presented in Figure 12.

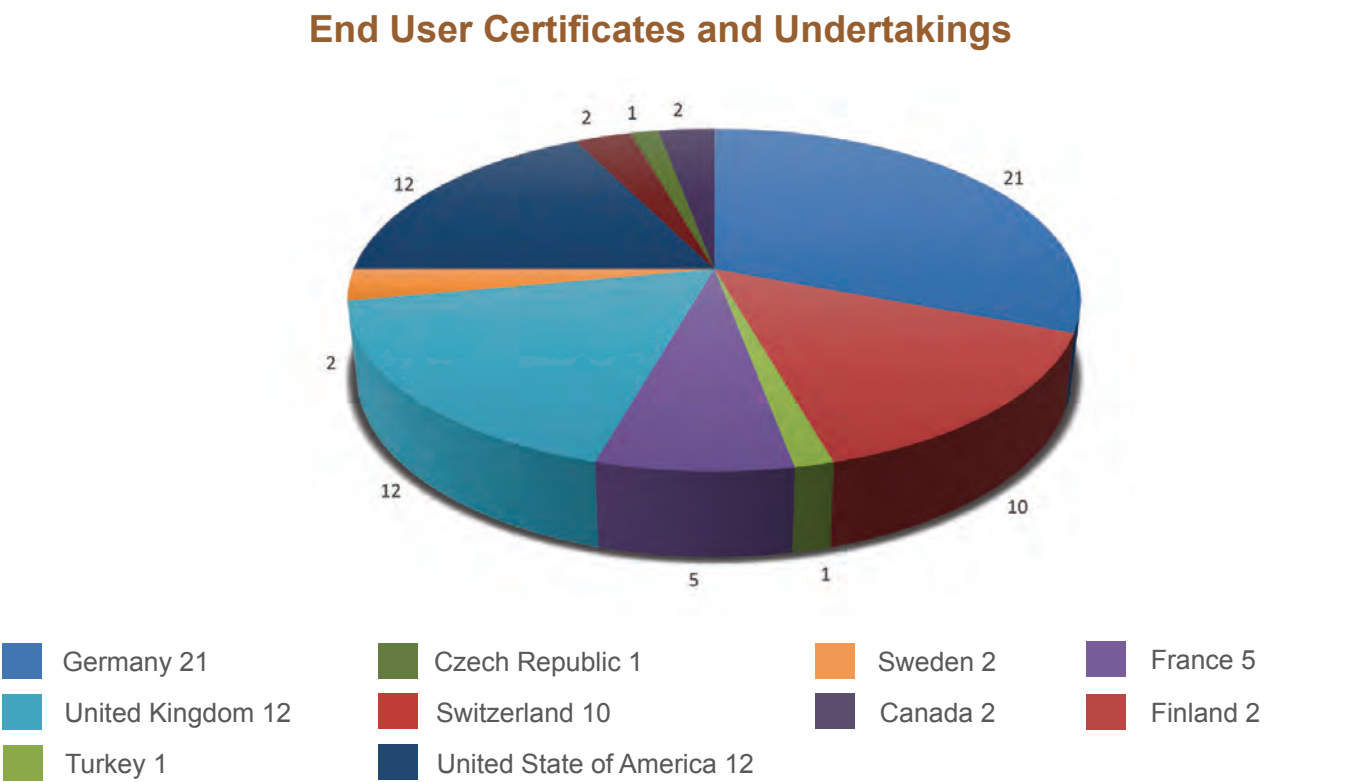
Figure 12: Approved permits



Status for End-User Certificates/Undertakings

There were 68 End-User Certificates/Undertakings processed and issued, and all were accepted by the requesting countries. The details are reflected in Figure 13.

Figure 13: End User certificates and undertakings



Status for Approval of Extension of the Authorised Period

There were 25 applications received to request extension of authorised period for temporary permits. Out of the total, 19 of these applications were approved and six are still being processed at DCAC. It is anticipated that these will be approved in the next NCACC meeting.

Compliance and Risk

Effective risk management is a keystone of effective corporate governance and the maintenance of a strong control environment. The aim of risk management is

not to remove all risks, but to understand the nature of risks and to implement controlled, sensible, balanced and cost effective measures. It also manages risk and achieves outputs within each activity across the portfolio of all activities.

Risks are viewed and assessed holistically and not in isolation, since a single transaction or event may have a significant impact on other risks, or be triggered by other risks.

Armcor identified 11 strategic risks that might have derailed the achievement of the performance targets for the 2020/21 financial year. The risks are depicted in Figure 14 according to their risk ratings.

Figure 14: Risk ratings

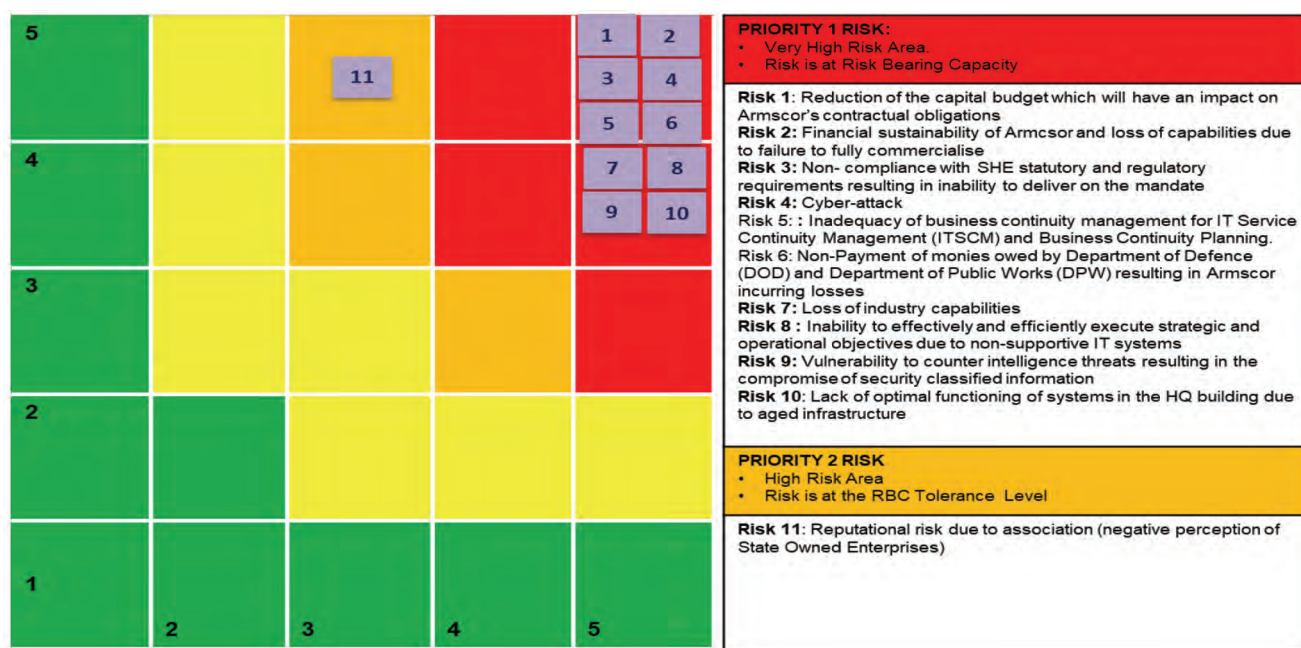


Table 9: Corporate strategic risks

No	Corporate risk	Mitigating actions
1	Reduction of the capital budget, which will have an impact on Armscor's contractual obligations.	a) Direct correspondence from the CEO to the Secretary for Defence indicating the implications of the reduction of the SDA post 2021/22 financial year and the potential liabilities to be incurred by Armscor. b) Propose early termination of certain contracts to limit exposure to fruitless expenditure.
2	Financial sustainability of Armscor and loss of capabilities due to a reduction in the transfer payment and other DOD funding.	a) Implement cost cutting measures: i. Strict monitoring of spending. b) Commercialisation of business through: i. Identify initiatives for generation of income and cost saving. c) Implement the short-term Dockyard renewal plan.
3	Non-compliance with SHE statutory and regulatory requirements resulting in inability to deliver on the mandate.	a) Develop and implement SHE Awareness and Training Plan (31 March 2021). b) Conduct audit and quarterly reviews as per the approved SHE audit plan (April 2020 - 31 March 2021): i. Conduct planned annual SHE legal compliance reports. ii. Monitor the implementation of corrective actions (April 2020 - 31 March 2021). c) Maintain ISO SHE certification (31 March 2021): i. Re-certification of ISO standards every three years. ii. Bi-annual surveillance of ISO certificates. d) Conduct COVID-19 SHE Risk Assessment and Workplace Preparedness Response including the related activities.
4	Cyber-attack.	a) Implementation of secure technology (31 March 2024). b) Integration of technologies at the Security Operations Centre (31 March 2021). c) Collaboration with Cyber Command as part of the Integrated Cyber Security Centre. d) Develop and implement cyber security training programmes for various levels to identify skills and capabilities that can be executed internally. e) Develop the Cyber Security Division Retention Plan.
5	Inadequacy of business continuity management for IT Service Continuity Management (ITSCM) and Business Continuity Planning.	a) Update the Disaster Recovery Plan (DRP) with post-test information (30 November 2021). b) Review and implement integrated Business Continuity plan.

6	Non-payment of monies owed by DOD and DPWI resulting in Armscor incurring losses.	a) Armscor has requested DPWI to schedule a meeting with SIU and invite Armscor, to resolve the short payment (ongoing). b) The long outstanding DOD amount in respect of a separate rental agreement will again be raised at Ministerial level and DOD structures. c) Conclusion of new rental agreement between DPWI and Armscor (ongoing).
7	Loss of industry capabilities	a) Periodically engage industry and contractors through audits and assessment of capabilities. b) Development of a contracting model to enable payment of suppliers and subcontractors directly. c) Provide inputs regarding future structure and positioning of specifically Denel, in order to maintain critical strategic capabilities.
8	Inability to effectively and efficiently execute strategic and operational outputs due to non-supportive IT systems.	a) Review and update the project plan to consider the impact of COVID-19 and the appointment of a service provider. b) Issuance of a Request for Bid (RFB) with detailed business requirements specifications and statement of work in the RFB including proof of technical expertise. c) Board approval of the service provider.
9	Vulnerability to counter intelligence threats resulting in the compromise of security classified information.	a) Appointment of freelancers and motivate appointment of personnel to fill existing vacancies. b) Engage Chief of Defence Counter Intelligence (CDCI) with regards to the delays in the adjudication process and inform EXCO on the outcome continuously. Submit files that are ready for evaluation to the panel for consideration (ongoing). c) Monitoring of Limited Access Authority (LAA) process of dual/foreign citizens (ongoing). d) Implement information security awareness sessions (31 March 2021).
10	Lack of optimal functioning of systems in the Armscor HQ building due to aged infrastructure.	a) Implementation of the facilities management plan. The following are priority areas: i. Roof waterproofing (31 March 2021) ii. Air-conditioning system (31 March 2021) iii. Lifts (replacement of controllers) (31 March 2021) iv. Access Control Systems (31 March 2021) v. The PABX system and the telephone management system have been updated vi. Procurement of generators for back-up site (30 November 2021).
11	Reputational risk due to association (negative perception of State-Owned Enterprises).	a) Reviewed and approved Fraud Risk Management Policy, Conflict of Interest Practice and Fraud Risk Management Practice as well as the Whistle Blowing Procedure. b) Implement Anti-Bribery Management System (ABMS) and Code of Conduct Implementation Plans in order for Armscor to be certified on ABMS 37001 standard.

Broad-Based Black Economic Empowerment

The Black Economic Empowerment (BEE) Division monitors compliance to the prescripts of the Broad-Based Black Economic Empowerment Act (Act No. 53 of 2003) (B-BBEE), the Preferential Procurement Policy Framework Act (Act No. 5 of 2000) and the Defence Sector Code of Good Practice by entities doing business with Armscor and also to ensure that Armscor meets its B-BBEE targets.

Notwithstanding, there is a challenge regarding non-achievement of some B-BBEE targets within

the Corporation and this has a negative impact on Armscor's B-BBEE scorecard.

The following report depicts an analysis of procurement and B-BBEE spend per business unit and/or department.

B-BBEE Spending Report

NOTE: Actual spend based on B-BBEE recognition levels up to 135%.

If a supplier has a level 1 B-BBEE status, the B-BBEE recognition level is 135%.

Table 10: Acquisition

Procurement Spend	B-BBEE Spend	B-BBEE Procurement Spend on Recognition Levels%		Target%
R4,091,803,359	R4,081,225,742	99,74%		80%
Enterprise Classification	Amount Paid	B-BBEE Spend	B-BBEE Actual%	B-BBEE Target
Above R35m turnover	R1,887,818,994	R2,310,232,943	56,46%	No Target
QSEs	R318,279,676	R372,785,855	9,11%	15%
EMEs	R378,237,075	R496,694,524	12,14%	15%
Specialised above R50m	R1,367,380,907	R901,990,259	22,04%	No Target
Non-Compliant	R140,564,545	R0	0%	0%
BOE >51%	R1,200,768,596	R1,331,392,172	32,54%	40%
BWOE >30%	R1,163,379,033	R533,216,053	13,03%	12%
BOE >25%	R2,447,647,453	R1,896,516,804	46,35%	0%
Foreign	R453,074,576	R0	0%	No Target
Military Veterans	R15,886,105	R20,717,773	0,51%	2%
Youth	R0	R0	R0	2%
Supplier Development		Target	Achieved	
Annual value of all Supplier Development contributions made by the measured entity as a percentage of the target.		0,2% of annual turnover	Nil	
Enterprise Development		Target	Achieved	
Annual value of Enterprise Development contributions and sector specific programmes made by the measured entity as a percentage of the target.		0,1% of annual turnover	Nil	
Localisation				
Description		Weighting points	Defence Sector Code - Targets	Achieved
Procurement of Defence Matériel produced and/or manufactured in RSA by local enterprises.		6	60%	Nil
Procurement from local enterprises that introduce new locally developed technology in the SADI not older than 24 months.		2	60%	Nil
Procurement of technologies developed in RSA by local enterprises from IP owned by such local enterprises or technologies developed in RSA by local enterprises from IP licenced thereto by foreign enterprises.		2	60%	Nil
TOTAL		10		

Acquisition met the B-BBEE procurement spend on recognition levels target. However, it did not achieve the targets, which include procurement from qualifying small enterprises (QSEs), exempted micro enterprises (EMEs), black-owned suppliers, military veterans and youth. The target on procurement from black-women owned suppliers was achieved.

There was no spending on Enterprise and Supplier Development.

Table 11: Dockyard

Procurement Spend	B-BBEE Spend	B-BBEE Procurement Spend on Recognition Levels%		Target%
R40,961,926	R48,867,130	119,30%		80%
Enterprise Classification	Amount Paid	B-BBEE Spend	B-BBEE Actual%	B-BBEE Target
Above R35m turnover	R2,875,483	R3,873,750	9,46%	No Target
QSEs	R19,006,153	R25,504,989	62,27%	15%
EMEs	R14,785,367	R19,488,391	47,58%	15%
Specialised above R50m	R0	R0	0%	No Target
Non-Compliant	R4,294,923	R0	0%	0%
BOE >51%	R26,251,583	R24,414,802	59,60%	40%
BWOE >30%	R13,867,872	R9,002,279	21,98%	12%
BOE >25%	R36,444,406	R27,646,416.97	67,49%	0%
Military Veterans	R0	R0	0%	2%
Youth	R1,063,856	R1,393,427	3,40%	2%
Supplier Development		Target	Achieved	
Annual value of all Supplier Development contributions made by the measured entity as a percentage of the target.		0,2% of annual turnover	Nil	
Enterprise Development		Target	Achieved	
Annual value of Enterprise Development contributions and sector specific programmes made by the measured entity as a percentage of the target.		0,1% of annual turnover	Nil	
Localisation				
Description		Weighting points	Defence Sector Code - Targets	Achieved
Procurement of Defence Matériel produced and/or manufactured in RSA by local enterprises.		6	60%	Nil
Procurement from local enterprises that introduce new locally developed technology in the SADI not older than 24 months.		2	60%	Nil
Procurement of technologies developed in RSA by local enterprises from IP owned by such local enterprises or technologies developed in RSA by local enterprises from IP licenced thereto by foreign enterprises.		2	60%	Nil
TOTAL		10		

The Dockyard met the B-BBEE procurement spend on recognition levels. The following targets have also been achieved: procurement from QSEs, EMEs, black-owned suppliers, black-women owned suppliers and youth. The military veterans target was not met.

There was no spending on Enterprise and Supplier Development.

Table 12: Operating Budget

Procurement Spend	B-BBEE Spend	B-BBEE Procurement Spend on Recognition Levels%		Target%
R72,504,363	R69,690,128	96,12%		80%
Enterprise Classification	Amount Paid	B-BBEE Spend	B-BBEE Actual%	B-BBEE Target
Above R35m turnover	R16,586,414	R21,357,145	29,46%	No Target
QSEs	R8,449,874	R10,754,876	14,83%	15%
EMEs	R21,366,541	R28,813,380	39,74%	15%
Specialised above R50m	R7,042,877	R8,764,726	12,09%	No Target
Non-Compliant	R3,220,622	R0	0%	0%
BOE >51%	R40,192,670	R35,669,587	49,20%	40%
BWOE >30%	R12,688,077	R6,207,425	8,56%	12%
BOE >25%	R52,829,376	R39,734,387	54,80%	No Target
Military Veterans	R25,300	R34,155	0,05%	2%
Youth	R431,361	R582,338	0,80%	2%
Supplier Development		Target	Achieved	
Annual value of all Supplier Development contributions made by the measured entity as a percentage of the target.		0,2% of annual turnover	Nil	
Enterprise Development		Target	Achieved	
Annual value of Enterprise Development contributions and sector specific programmes made by the measured entity as a percentage of the target.		0,1% of annual turnover	Nil	

The following targets were met on the Operating budget: the B-BBEE procurement spend on recognition levels, procurement from QSEs, EMEs and black-owned suppliers. The targets for procurement on black-women owned suppliers, military veterans and youth were not met.

There was no spending on enterprise and supplier development.

Table 13: Research and Development

Procurement Spend	B-BBEE Spend	B-BBEE Procurement Spend on Recognition Levels%		Target%
R139,993,356	R125,176,093	89,42%		80%
Enterprise Classification	Amount Paid	B-BBEE Spend	B-BBEE Actual%	B-BBEE Target
Above R35m turnover	R18,207,237	R15,641,497	11,17%	No Target
QSEs	R36,932,048	R49,395,243	35,28%	15%
EMEs	R27,014,038	R32,471,605	23,20%	15%
Specialised above R50m	R35,912,146	R13,516,952	9,66%	No Target
Non-Compliant	R10,246,682	R0	0%	0%
BOE >51%	R53,020,260	R66,007,881	47,15%	40%
BWOE >30%	R28,252,570	R29,811,873	21,30%	12%
BOE >25%	R62,438,368	R69,274,167	49,48%	No Target
Military Veterans	R0	R0	0%	2%
Youth	R139,183,876	R109,001,357	77,86%	2%
FOREIGN	R3,193,512	R0	0%	No Target
Supplier Development		Target	Achieved	
Annual value of all Supplier Development contributions made by the measured entity as a percentage of the target.		0,2% of annual turnover	Nil	
Enterprise Development		Target	Achieved	
Annual value of Enterprise Development contributions and sector specific programmes made by the measured entity as a percentage of the target.		0,1% of annual turnover	Nil	
Localisation				
Description		Weighting points	Defence Sector Code - Targets	Achieved
Procurement of Defence Matériel produced and/ or manufactured in RSA by local enterprises.		6	60%	Nil
Procurement from local enterprises that introduce new locally developed technology in the SADI not older than 24 months.		2	60%	Nil
Procurement of technologies developed in RSA by local enterprises from IP owned by such local enterprises or technologies developed in RSA by local enterprises from IP licenced thereto by foreign enterprises.		2	60%	Nil
TOTAL		10		

R&D met the B-BBEE procurement spend on recognition levels. The following targets have also been achieved: procurement from QSEs, EMEs, black-owned suppliers, black-women owned suppliers and youth. The military veterans target was not met.

There was no spending on Enterprise and Supplier Development.

Defence Sector Code

The Defence Sector Code was gazetted on 12 April 2019 and on 12 April 2020 it was the first anniversary. According to the Defence Sector Code, the Defence Sector Council ensures that the Enterprise and Supplier Development Fund be established not later than 12 months after the gazettement of the Sector Code.

The Minister of Defence and Military Veterans appointed the Defence Sector Council in February 2021, which will administer the Enterprise and Supplier Development Fund. The Council consists of representatives from the defence industry, the DOD, the Department of Military Veterans, the Department of Trade, Industry and Competition, Labour Unions and Armscor.

2.3.2 Business Enablement

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

The business unit also facilitates and administers the use of SANDF equipment, facilities and personnel by SADI as part of Armscor's marketing initiatives to support SADI in marketing its capabilities to local and international strategic partners. Armscor with the support of the dtic, facilitates the participation of the defence-related industry at international shows and exhibitions to showcase its capabilities. Armscor continues to liaise with both the local and foreign stakeholders to promote Armscor and the SADI.

Business Enablement is therefore responsible for the following:

- Market Armscor and SADI's capabilities to targeted markets
- Identify, pursue and realise business from marketing and business development initiatives
- Support growth, development and transformation of SADI:
- Manage and leverage:
 - Armscor property portfolio
 - Disposal of defence matériel
 - Logistic freight services
 - Travel management services
- Build, maintain and enhance stakeholder relationships.

Marketing and Business Development

During the reporting period, the Marketing Support and Sustainability divisions were merged to establish Marketing and Business Development Department. This was in an effort to improve efficiencies and effectiveness in the marketing and sales management process, thus making it easier for clients and other stakeholders to engage with Armscor. Both areas have been and still are externally focused and endeavour to improve the financial sustainability of the Corporation and SADI.

Business Development

While inroads have been made to market Armscor's capabilities since the Turnaround Strategy was developed, the impact of the COVID-19 pandemic has been felt as some prospects with potential clients were delayed. The travel restrictions and the cancellation and/or postponement of major international defence exhibitions significantly impacted revenue generation efforts. Armscor, however, continues to engage with existing and potential clients. The engagement efforts resulted in Armscor being appointed as a service provider on a three-year period by the United Nations, represented by its subsidiary UNICEF in South Africa to provide travel management services to the United Nations South Africa. The travel industry is however, expected to recover in 2023/24 to 2025. The demand for travel is still low and is affected by the roll out of the COVID-19 vaccination.

Armscor also concluded contracts to the value of R114m and has already placed a R72m order with one of SADI's companies for delivery within two years. Contracts to the value of R42m for security equipment systems will be placed with SADI on receipt of payment from the client. Engagements with one of the State-Owned Companies to take over a R138,5m contract also resulted in Armscor to manage the agreement on behalf of the DOD.

An Africa Focused Strategy has been developed to identify and pursue opportunities that may contribute to Armscor and the SADI's financial sustainability. As a State-Owned Company Armscor aims to leverage on the bilateral and trilateral agreements with other countries, especially in SADC. Armscor continues to engage and create awareness of its own capabilities and that of the industry to both inbound and outbound

defence attachés. Collaboration with other State-Owned Companies have recently borne fruit, more business is expected to be realised by Armscor in the next financial year and beyond. Armscor is renowned for its acquisition procurement expertise by the security cluster, its rigorous procurement processes is well recognised. The Corporation however, needs high valued items to make a significant impact in its financial position.

Industry Marketing Support

Armscor provides an integrated defence industry support to the SADI. The support includes facilitation of SADI's participation at local and international exhibitions; the management of requests for the utilisation of SANDF equipment, personnel and facilities for marketing exposure of SADI.

Marketing Events

International exhibitions are recognised as one of the best channels to promote South African products and services to the international defence community. Showcasing South Africa's capabilities at international shows and exhibitions increases the potential to increase exports. SADI contributes to South Africa's economy through the development and maintenance of high-level scientific, engineering, technological and technical skills and jobs, as well as advanced design, development and manufacturing processes.

Due to the COVID-19 pandemic, most, if not all international events have been cancelled and/or deferred in the reporting period. The 11th edition of the Africa Aerospace and Defence (AAD), which was to take place in September 2020 at Waterkloof, Pretoria, is scheduled to take place from 21 to 25 September 2022. The upcoming edition is expected to invite companies in the Oil and Gas, Safety and Security as well as Remote Piloted Aerial Systems (RPAS) to participate in the event. In an endeavour to promote its capabilities and that of the industry, Armscor hosted the Nigerian Police Ministry and invited SADI companies to showcase its non-lethal and riot control equipment.

Defence Equipment Personnel Support

Armscor provides marketing support to the SADI by facilitating the use of SANDF equipment, personnel and facilities through Defence Equipment Personnel

Support (DEPS). This function provides guidance on the utilisation of DOD personnel, equipment, matériel and facilities by the SADI in support of their strategic marketing initiatives that are consistent with government and defence policies. During the reporting period, an amount of R436 322.08 was generated for the DOD. DEPS also supported various SADI companies with their marketing export activities to countries like Ecuador, Singapore and United Arab Emirates.

AB Logistics

Armscor provides comprehensive freight logistics management services to SANDF, SADI and foreign defence forces on military sensitive commodities and hazardous cargo. This is in support of the acquisition supply chain requirements during import and export process, thus rendering air, sea, rail, and road freight services.

AB Logistics is a registered and accredited customs clearing agent with the South African Revenue Services (SARS). The Division is proud to have maintained a registered transporter of hazardous, weapons and ammunition cargo in terms of the Explosives Act (Act No. 15 of 2003) and Firearms Control Act (Act No. 60 of 2000). In terms of the South African Arms Control Regime, AB Logistics is registered with the NCACC and the South African Council for the Non-proliferation of Weapons of Mass Destruction.

AB Logistics is a member of:

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

The Division also supports the SANDF in its joint military exercises with other countries, as well as transporting SANDF equipment for its peacekeeping missions and operations in Africa.

AB Logistics Travel provides travel management services to the DOD and the Ministry of Defence. AB Logistics Travel is a registered member of the International Air Transport Association and the Association of South African Travel Agents.

The business of freight logistics and travel have been severely impacted by the COVID-19 pandemic, achieving 44% of its sales target. The easing of travel restrictions and the roll out of the vaccine is expected to improve sales as some projects were delayed.

Defence Disposal Solutions

Armcor's Defence Disposal Solutions (DDS) mandate provides for the disposal of excess and obsolete defence matériel on behalf of the DOD. The range of stock includes aircraft, spares, vessels, land and/or air-based equipment and ammunition larger than 12,7mm. Disposal of the defence matériel is carried out in accordance with the requirements of the DOD and regulatory requirements such as the NCACC and the Non-Proliferation Council (NPC).

The Division has been engaging with the DOD Logistics Division on the expedited process of identifying and disposing of redundant and/or surplus stock. Stock will still be disposed in a responsible manner and within the existing DOD and Armcor procedures. The initiatives is meant to generate income for both the DOD and Armcor. The Division managed to dispose some DOD surplus ammunition stock to a foreign client and sold some obsolete naval stock to a local client.

In an effort to leverage on its disposal experience, Armcor DDS concluded a partnership agreement with Defence Equipment Sales Authority (DESA) of the UK Ministry of Defence to market and sell its surplus stock on the continent. This opportunity is expected to generate income for both DESA and Armcor while also creating an opportunity for the industry to upgrade, refurbish and/or provide after sale service to the prospective client.

Property Management and Leveraging

Armcor established the Property Management and Leveraging Division with the intention of sweating its own property assets and to provide property management and development services to the department.

Armcor issued a request for bids inviting potential developers and investors to submit proposals for the development of its land parcels; two at Erasmuskloof, one in Pretoria West and another one in the Northern Cape. While the procurement process is at an

advanced stage, final approval from the shareholder is awaited. Once approved, National Treasury will be advised accordingly and in compliance to the PFMA.

2.3.3 Corporate Support

Armcor endeavours to build, maintain, and strengthen relationships with all its stakeholders through different marketing communication and engagement platforms. This is aimed at creating awareness of Armcor's capabilities, as well as enhancing the Corporation's image and reputation. Armcor also actively supports the upliftment of communities in which it operates. As a service Corporation, Armcor's people are its backbone and the need to maintain capabilities has increasingly become the main area of challenge from the human capital management point of view.

Armcor's strategy seeks to consistently improve organisational effectiveness and customer service, through effective ICT systems. Personnel security, information security and physical security, within Armcor and the defence related industry, forms part of overall security governance. Maintenance of the infrastructure and operational procurement activities required by the Corporation is the responsibility of the Corporate Support Business Unit.

Corporate Communication

Stakeholder Relations

Stakeholder management remains one of Armcor's strategic outputs. The Corporation strives to build, maintain and strengthen relationships with all its stakeholders. These include providing ongoing support to SADI, communities and other industries.

During the reporting period, a number of initiatives were completed in an attempt to enhance the image of the Corporation and position Armcor as a caring Corporation.

Armcor has engaged with stakeholders through the following initiatives:

Stakeholder Engagement Survey

Armcor conducted the Stakeholder Engagement Survey using an external service provider to understand the extent to which the needs of service providers or clients are being met; understand the

perceptions of the stakeholders to ensure that Armscor performs optimally and to identify areas of Armscor's performance that can be improved. The feedback indicated that Armscor has a good relationship with its stakeholders and it is still perceived in a positive image.

Corporate Social Investment

Armscor as a socially responsible Corporation supports communities in which it operates. The focus is on education to assist learners from previously disadvantaged communities to improve their performance and results in Science, Technology, Engineering and Mathematics (STEM) subjects. Corporate Communications Division continues to implement the Corporate Social Investment (CSI) policy in line with the strategic direction of the Corporation. The CSI is divided into three components namely: Human Capital Development Programme, Socio-Economic Upliftment Programme and Enterprise Supplier Development.

Human Capital Development Programme

The Human Capital Development Programme is aimed at building human capital through supporting initiatives that are focused on learner enhancement, which assists learners specifically from previously disadvantaged communities to improve their performance and results in STEM subjects. The Corporation also offers internship/apprenticeship, which aims to provide interns with on-the-job training to develop technical skills and gain work experience.

Learner Enhancement Programme

During the reporting period, Armscor supported the following initiatives focused on teacher and learner enhancement on STEM subjects:

- Donation of school shoes to learners in Jansenville community, Eastern Cape as part of Back to School campaign
- Supported workplace readiness initiative for learners with disabilities in the Free State

- Provided an intervention programme for Grade 12 learners doing STEM subjects from Osizweni Science Centre, Mpumalanga
- Provided public schools in various provinces with sanitisers and surface disinfectants to prevent the spread of COVID-19
- Supported online classes for Maths and Science intervention for Grade 12 learners in North West. The Corporation donated tablets and provided data for learners to study online
- Provided COVID-19 packs to learners in Northern Cape to prevent the spread of the virus.

Socio-Economic Upliftment Programme

This programme is aimed at improving lives of communities and creating an inclusive economy. It is also focused on providing social relief in cases of emergencies/disaster relief and charitable/good causes. As a result of the COVID-19 pandemic, Armscor received increased requests for social relief assistance with communities struggling to make ends meet. During the reporting period, Armscor was involved in the following:

- Provided social relief to Mooiplaas Informal Settlement in Gauteng
- Sponsored youth development camp to empower youth and address some challenges affecting the community of Hammanskraal and Mamelodi both in Gauteng
- Provided food parcels to poverty stricken communities in KwaZulu-Natal
- Provided support to military veterans to start a farming project in Eastern Cape
- Provided support for accredited plumber training skills programme to disadvantaged communities in KwaZulu-Natal.

Disaster Relief Initiatives (Nationally)

Armscor provided support to Parkridge Informal Settlement, Eastern Cape and Booyens Informal Settlement, Gauteng following devastating fires that left community members destitute. The Corporation provided essentials to help families rebuild their homes.

Information and Communication Technology

Armcor Business Applications Renewal Programme

Armcor undertook an initiative to acquire an Enterprise Resource Planning (ERP) solution to replace the disparate and outdated information systems. The request for bid was published on the Treasury Tender bulletin, albeit with delays in the procurement process due to, among others, the COVID-19 pandemic. By the end of the reporting period, two bidders have been shortlisted for demonstrations to conclude the bid evaluation process.

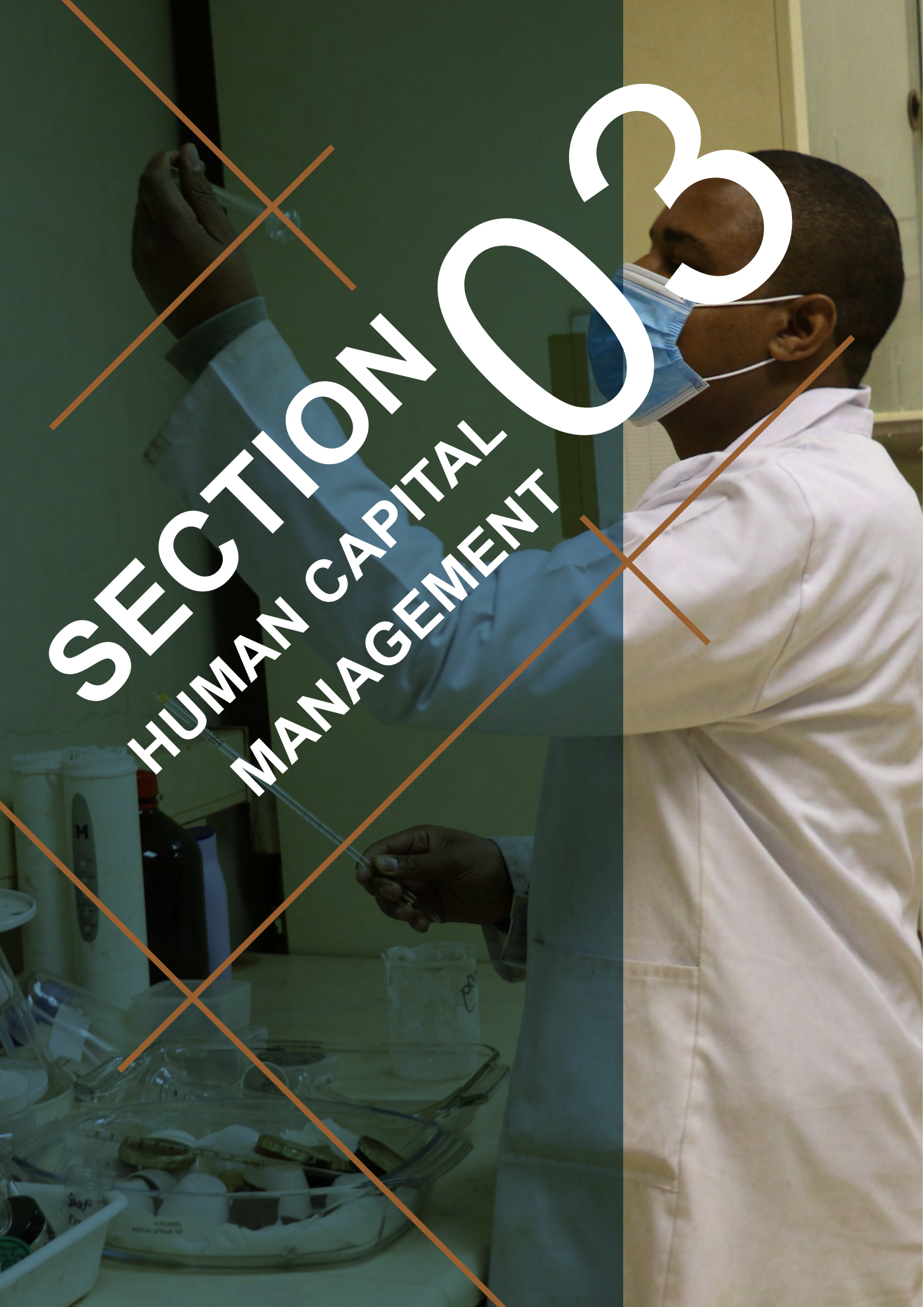
Supporting the Corporation during the COVID-19 Pandemic

The COVID-19 pandemic necessitated a change in the way in which the Corporation operates, and thus the way in which information and communication technology (ICT) support is given to users. The ICT

support held up very well considering that virtually everyone was working from home for an extended period of time. The biggest challenges that had to be overcome were requirements for remote collaboration (especially video conferencing and enterprise content management), weak connectivity due to poor network in various geographical areas across the country, increased bandwidth requirements, scarcity of mobile equipment (laptops) and higher volumes for remote user support.

Importantly, the information and technology communication systems worked well as the defence approved virtual security network (VPN) capabilities were employed.

This pandemic, however, also provided an opportunity to put more concerted effort in appointing a service provider to assist in the review of current business processes. Contractor was then appointed towards the end of the financial year to be the implementation partner for enterprise architecture (which included business process review and update).



SECTION 03

HUMAN CAPITAL MANAGEMENT

3.1 Human Capital Management

Armcor continues to make significant progress with regards to a number of key people management interventions. Transformation, succession, skills development and knowledge transfer programmes are still major focus areas.

Transformation targets are progressing well and the effectiveness of the succession plan is seen in the increase in the readiness levels of successors.

Employment Equity Update

A plan, which focuses on increasing the representation of black people, women and persons with disabilities, was developed. The plan commenced on 1 April 2017 and ended on 31 March 2020. The target for black representation was surpassed. In the plan more focus will be on increasing the representation of women and persons with disabilities.

The Human Capital profile of Armcor, including Armcor Dockyard, as at 31 March 2021 per broad band, race and gender, is reflected in Table 14.

Table 14: Human Capital profile progress 2020/21 financial year

Armcor staff profile - Armcor (Including Dockyard) 31 March 2021 (Permanent & FCT employees more than three months service)											
	African		Coloured		Indinan		Whites		Total		Grand Total
Grade	M	F	M	F	M	F	M	F	M	F	
F	6	1	0	0	0	0	1	0	7	1	8
E	31	13	4	0	4	0	32	1	71	14	85
D	153	113	33	6	19	5	95	29	300	153	453
C	154	201	135	44	5	12	21	56	315	313	628
B	64	21	98	10	1	0	9	0	172	31	203
A	30	56	3	11	0	0	0	0	33	67	100
Totals	438	405	273	71	29	17	158	86	898	579	1477
%	29.65	27.42	18.48	4.81	1.96	1.15	10.70	5.82	60.80	39.20	100
%	57.08		23.29		3.11		16.52				
%	83.48						16.52				

The Figures 15, 16 and 17 illustrate the progress of employment equity during the reporting period.

Figure 15: Employment equity target for men

Number of Male employees by Race - 31 March 2021

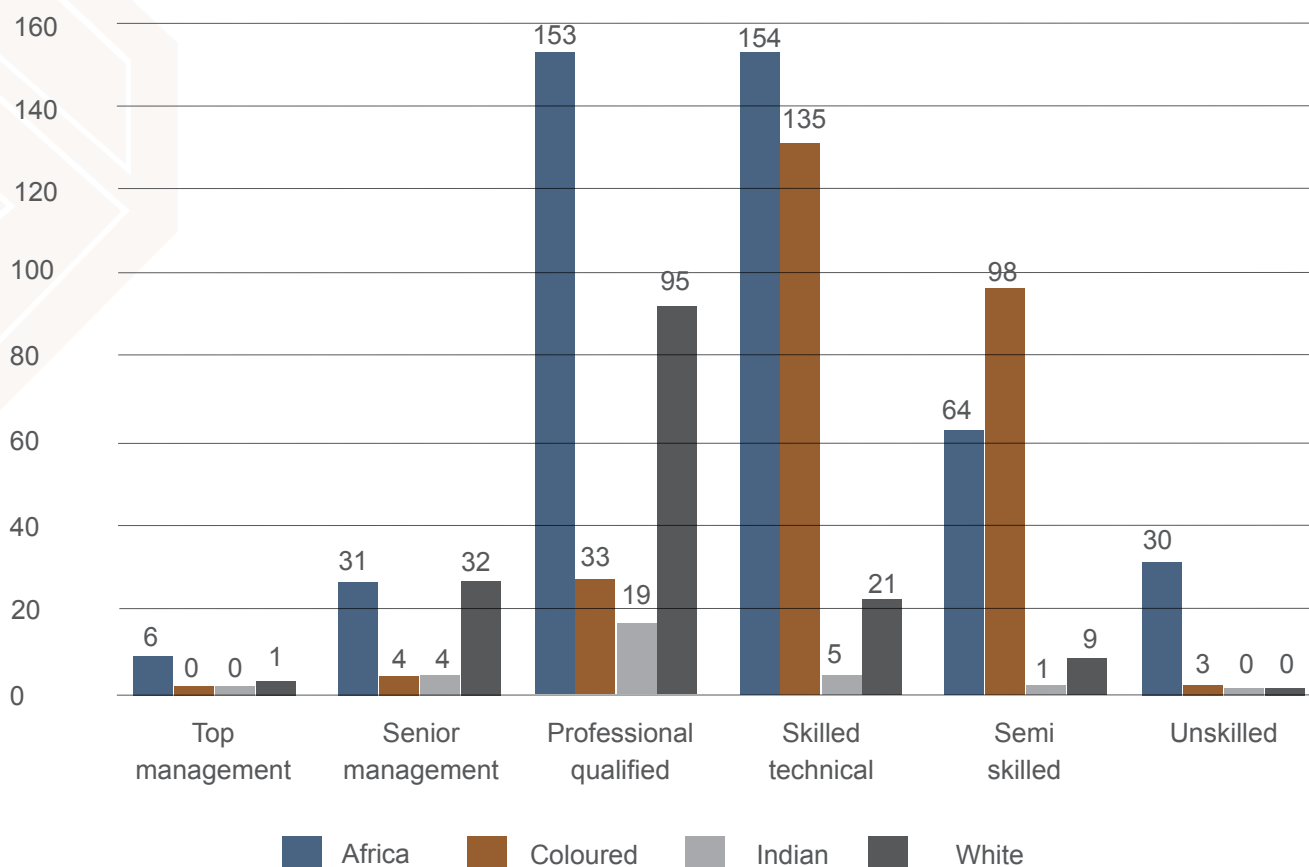


Figure 16: Employment equity target for women

Number of Female employees by Race - 31 March 2021

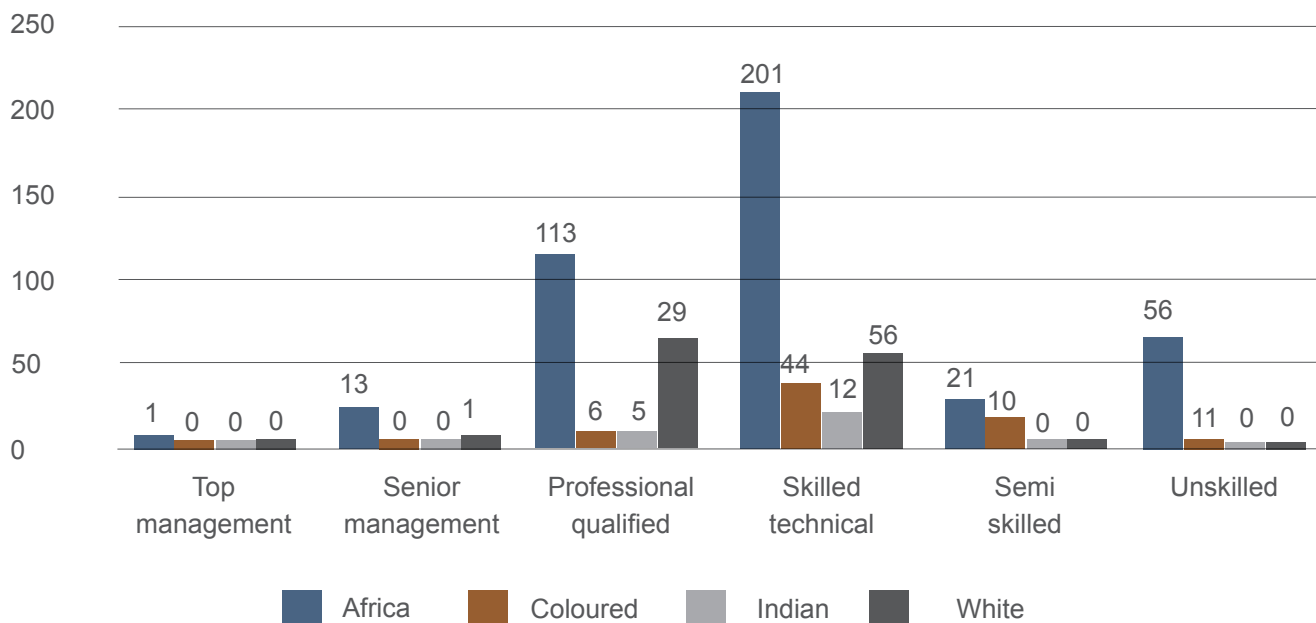
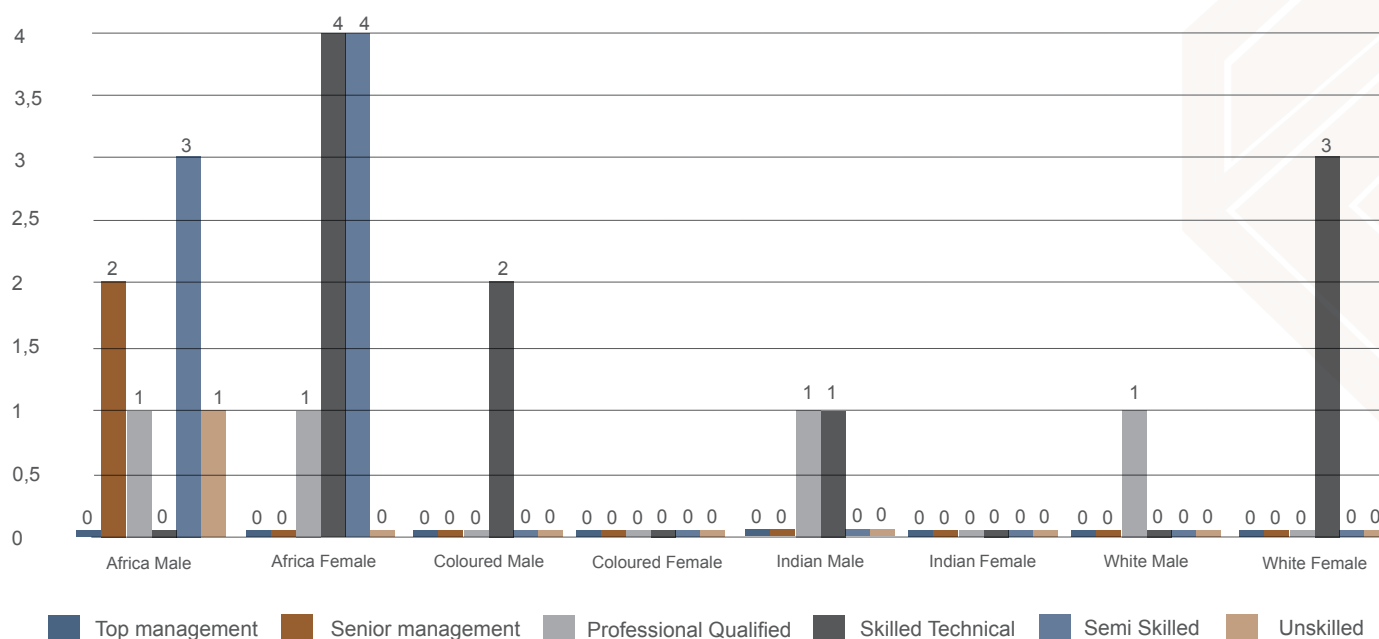


Figure 17: Employment equity target for people living with disabilities

Employees with disabilities per race & Gender - 31 March 2021



Armcor Succession Planning

Armcor succession planning strategy forms part of an integrated talent solution. The focus is on building a talent pipeline as part of a smart human capital strategy that allows for the search for talent throughout the Corporation. Hence, the intent is to ensure that the Corporation possesses the required talent for coping with the changing business environment and to ensure business continuity.

In order to address the changing business environment at Armcor, succession planning strategy required a shift in thinking from “succession planning”, which implied an event, to “succession readiness,” which required leaders to start thinking in terms of ongoing development, capacity and capability building and the identification of high potential employees.

Additional strategic scarce skills

Additional strategic scarce skills areas identified during 2020/21 financial year included the development of armour protection systems (Armour Development Division), and software support skills (Quality Department). With the downturn in active projects in the immediate future, the Acquisition Department intends to retain a portfolio of capabilities and expertise in identified strategic technology domains – to ensure that the capability will exist to capably execute anticipated future requirements of the DOD, and to remain relevant. The Acquisition Department will rely

more heavily on HR Training and Development to assist with the identification and facilitation of suitable training courses/postgraduate studies to mitigate identified capability gaps. Where possible, identified technical personnel will be seconded to industry for exposure to development activities and to maintain/develop expertise in strategic domains.

Number of key positions/domains

As part of this process 89 key positions/scarc skills domains and 86 mentees have been identified.

Monitoring of performance against strategic outputs:

As part of monitoring the effectiveness of the strategy, Armcor has set a strategic output for 2020/21 financial year of 80% compliance to the development plans of successors/mentees. Armcor exceeded the target with a performance score of 87,5% (measured as at 31 March 2021).

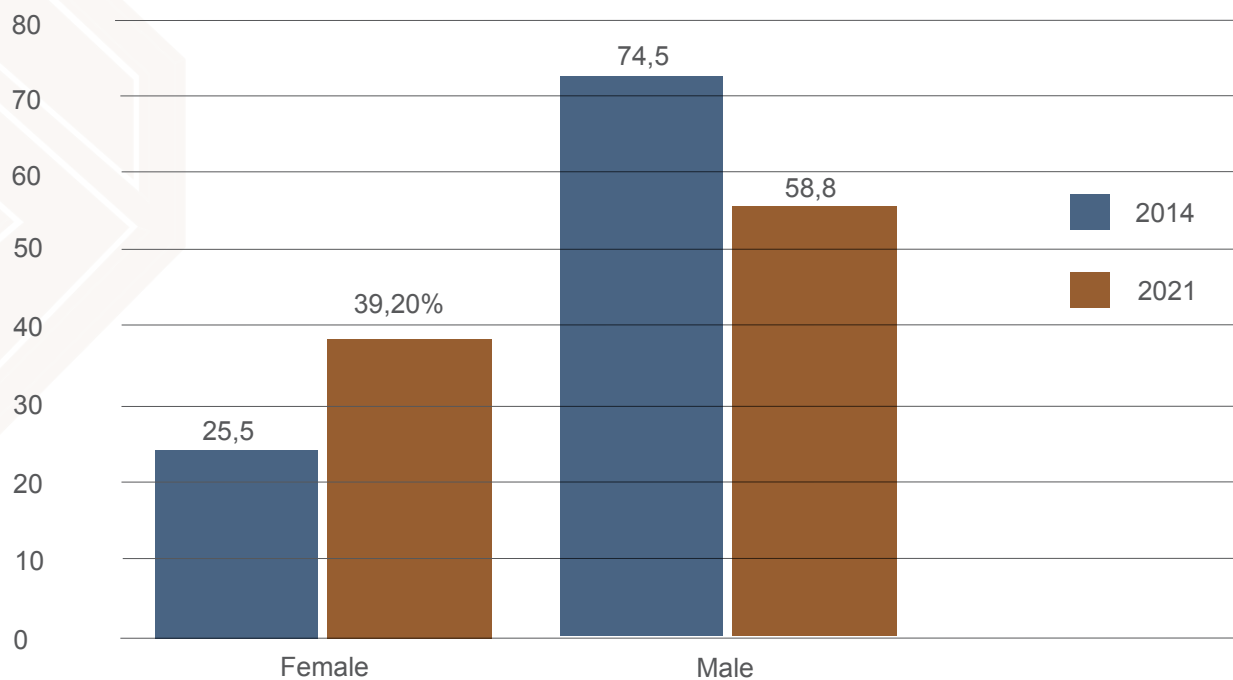
Employment equity targets: Female representation

In addition, the process aims to improve Armcor Employment Equity representation targets.

Based on Figure 18 female representation improved from 25,5% (2014) to 39,20% (March 2021).

Figure 18: Female representation

Female Representation 2014 - 2021



Employment equity: Race representation

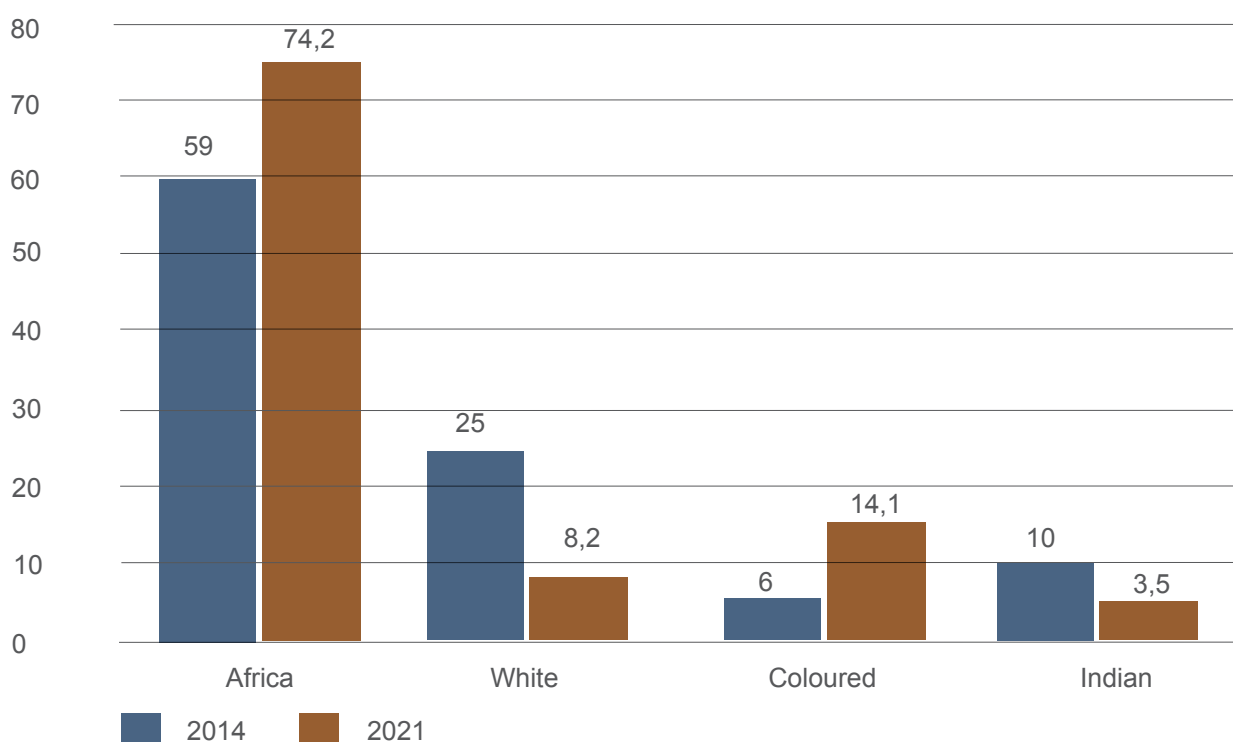
Race representation from 2014 to 2021 is illustrated in Figure 18.

Based on the Figure 19:

- Black representation improved from 59% in 2014 to 74,2% in 2021.
- White representation moved from 25% in 2014 to 8,2% in 2021.

Figure 19: Race representation

Race Representation 2014 - 2021



Number of mentees promoted 2014 to 2021

Table 15: Mentees promoted

Year	Number
2014	0
2015	6
2016	12
2017	3
2018	19
2019	12
2020	3
2021 (March 2021)	2
TOTAL	57

Readiness Ratings 2014 – March 2021

Table 16 reflects an improvement of readiness ratings from 2014 to date. It is important to note that new mentees are added to the programme as and when required. This impacts the readiness ratings.

Table 16: Readiness ratings

Key for readiness	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
1 = 5 years or longer	13%	9%	5,9%	1,4%	13,4%	5,7%	7,1%
2 = 3 - 4 years	45%	43%	17,6%	17,8%	19,5%	21,6%	14,1%
3 = 1- 2 years	28%	38%	52,9%	43,8%	29,3%	30,7%	35,3%
4 = ready now	14%	11%	23,5%	34,2%	37,8%	27,3%	36,5%

* Readiness ratings are impacted when new mentees are added to the programme.

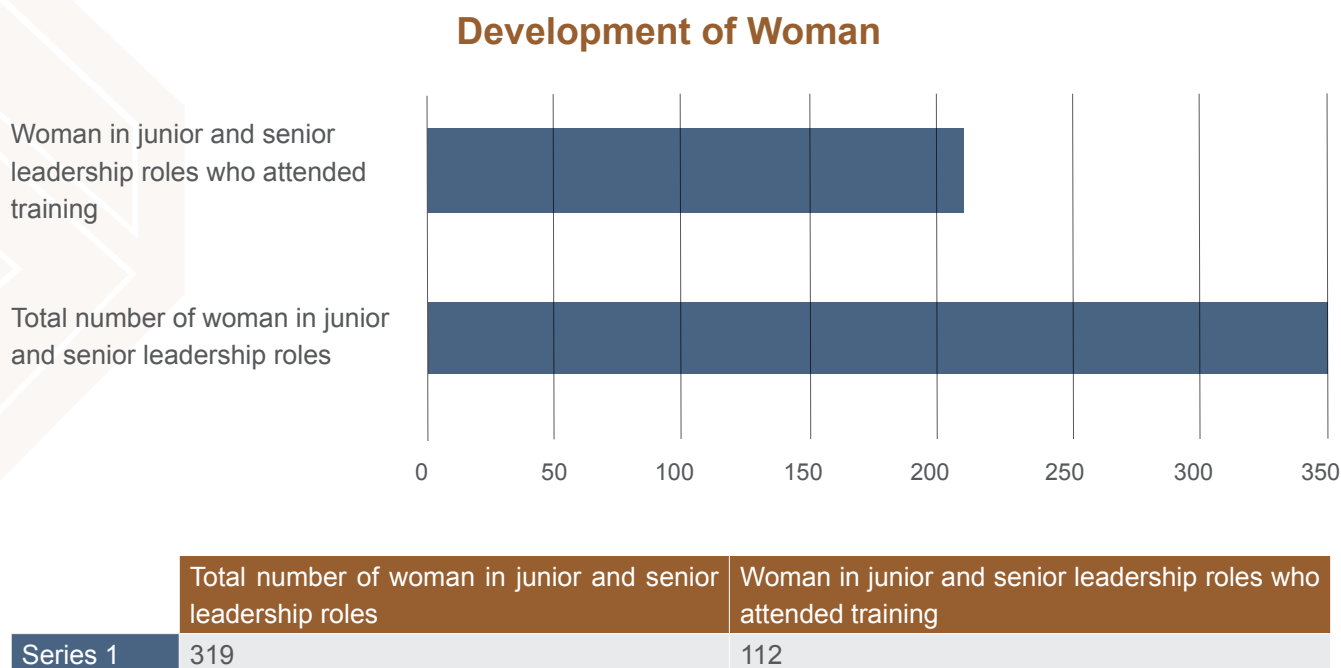
Learning and Talent Development

The Learning and Talent Development function implemented various development initiatives that seek to develop employees' competencies and address critical and technical scarce skills shortages in the business.

Women in Learning

During the reporting period, Armscor continued supporting women and employees living with disabilities with development opportunities. A total of 112 women in junior and senior leadership roles participated in learning programmes and four employees living with disabilities also participated in different learning programmes.

Figure 20: Development of women



Armcor Bursary Scheme

Armcor is committed towards the National Skills Development Agenda, and thus sponsored 34 students with bursaries to study at different institutions, of which the majority were in engineering and science.

Table 17: Student performance

Status	Number
Completing and exiting	7
Drop-out	1
Poor performance and suspended	5
Progressing and remaining on the ABS	21

During the reporting period, the Armcor Bursary Scheme students performed well, with a 98,3% pass rate and only 1,7% performing poorly. The Corporation will keep on supporting students to ensure good performance.

DESUP Bursary Schemes

In 2020 academic year, Armcor through DESUP sponsored 67 students with bursaries to study at different institutions, of which the majority were in engineering and science. A total of 43 students were postgraduates and 24 were undergraduate students.

Figure 21: DESUP by study level

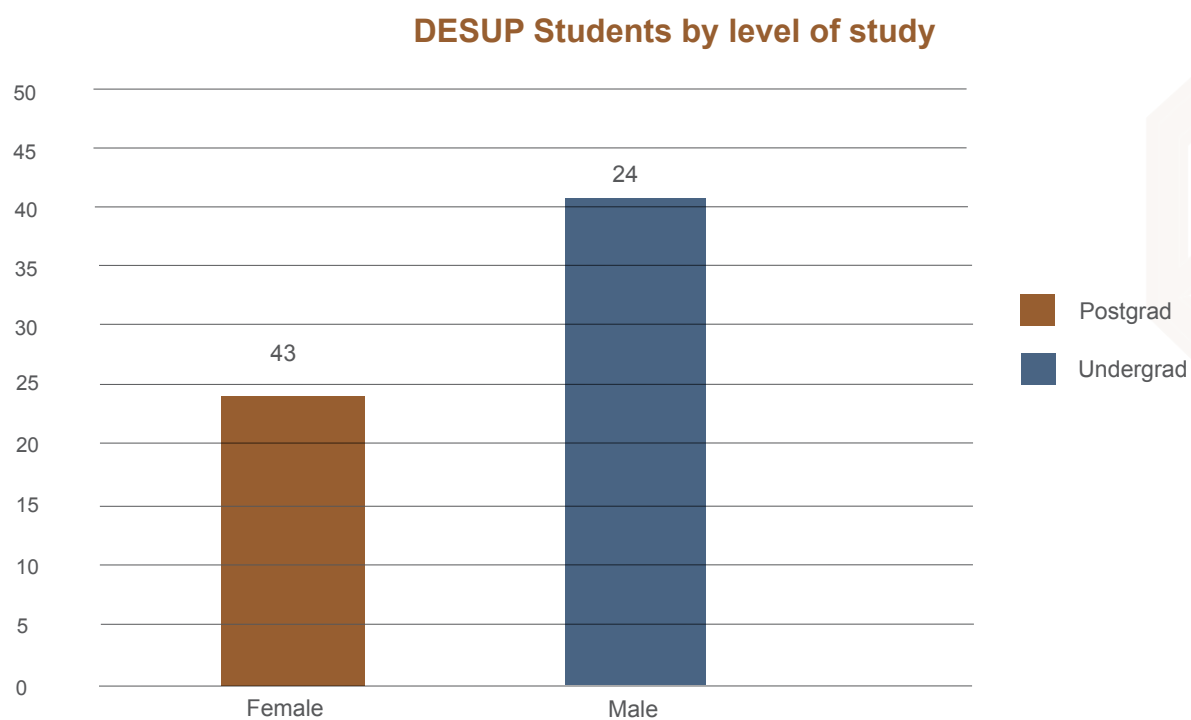
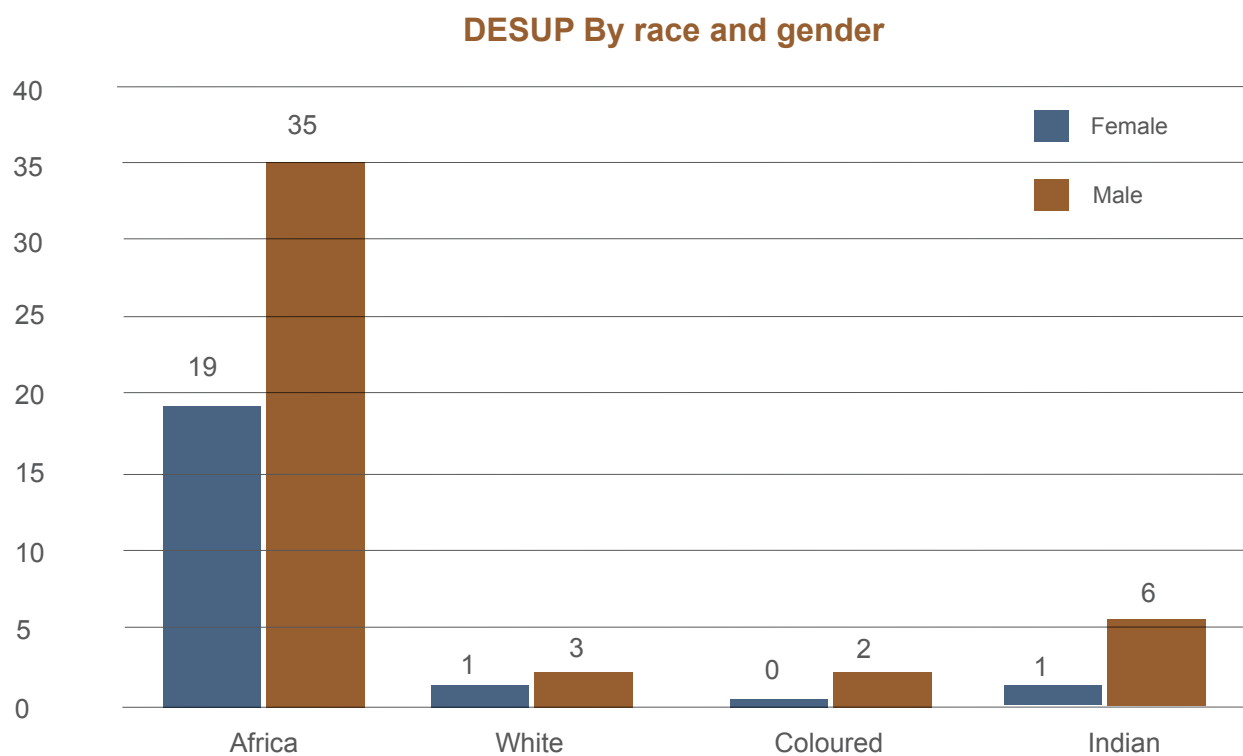


Figure 22: Breakdown of DESUP students by race and gender



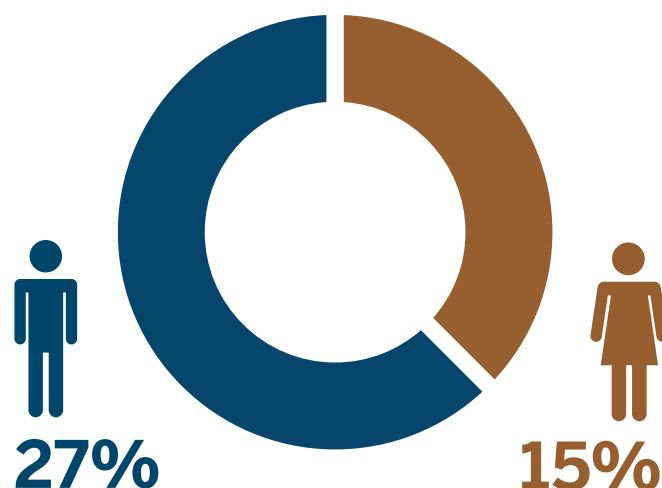
	African	Coloured	Indian	White
Female	19	1	2	1
Male	35	3	2	6

Talent Development Programme

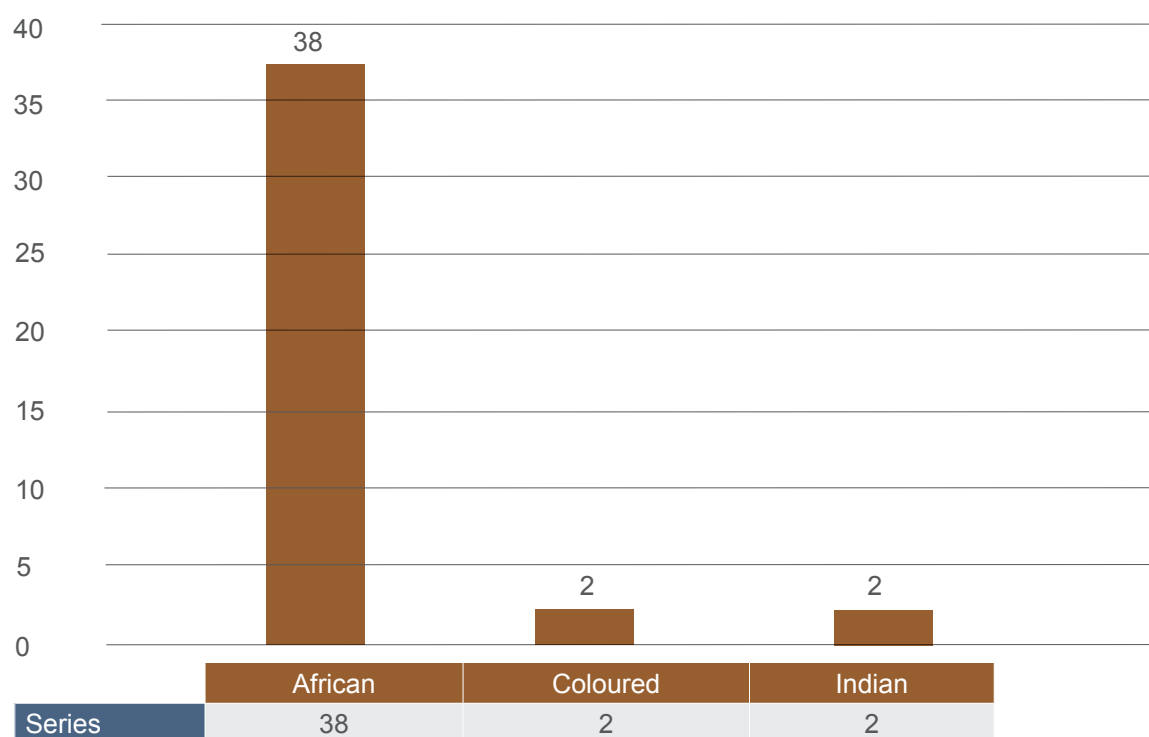
In line with the Corporate Plan, Human Resources was able to place 42 learners on the Talent Development Programme by March 2021. The students were placed in different business units across the entire Corporation. The programme aims to develop a pool of readily available talent and technical expertise to meet required skills needs for current and future business strategic outputs. These graduates were recruited from the Armscor bursary pool and were provided with opportunities to work on advanced technologies at Armscor and with other defence partners in the industry.

Figure 23: Breakdown of graduates by race and gender

Graduate Employees by Race as at 31 March 2021



Graduate Employees by gender as at 31 March 2021



SECTION 04

CORPORATE GOVERNANCE



4. CORPORATE GOVERNANCE

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

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

Governance Framework

Key Legislation

- Armscor Act
- Public Finance Management Act
- Companies Act

Policies and procedures in place

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

Governance principles

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



4.1 DIRECTORS' REPORT

Introduction

This is the Directors' Report for the period 2020 – 2021 and relates to the performance of the Corporation for the year under review.

Background

This report is therefore presented in terms of the relevant provisions of the Public Finance Management Act, (Act No. 1 of 1999) (PFMA) and the Companies Act (Act No. 71 of 2008). It provides an overview on the performance of Armscor, measured against performance targets that the Corporation had set for itself for the year under review.

Nature of Business

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

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

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

Armscor may, with the approval of the Minister of Defence and Military Veterans (the Minister), exploit

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

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

Share Capital

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

Organisational Structure

The organisational structure of the Corporation appears on page 20 of this report.

Communication with the Executive Authority

The Executive Authority for Armscor is the Minister, who represents the Shareholder. Communication with the Executive Authority is channelled primarily through the office of the Chairperson. In addition, there are further engagements between the Minister and the Chief Executive Officer.

Regular reporting was undertaken in terms of the Shareholder Compact, and additional ad hoc reports were also submitted for consideration by the Minister. Two shareholder meetings took place during the year under review.

Directorate

The Directors of the Corporation and their brief curricula vitae appear on page 21 of this report.

4.1.1 CORPORATE GOVERNANCE

Armcor is a statutory body, established in terms of the Armaments Corporation of South Africa Limited Act (Act No. 51 of 2003), as amended. It is also a State-Owned Company as contemplated in the Companies Act (Act No. 71 of 2008). Furthermore, it is listed as a Schedule 2 Public Entity in terms of the PFMA (Act No. 1 of 1999), as amended. It is further regulated by the Regulations issued in terms of the PFMA and those of the Companies Act.

Armcor subscribes to the good corporate governance principles contained in the King IV Report on Good Corporate Governance for South Africa 2016, and the Protocol on Corporate Governance in the Public Sector 2007.

The Corporation services the requirements of the Department of Defence or other clients in terms of a service level agreement (SLA). The SLA is based on the Shareholder Compact, which is focused on the functions of the Corporation, specify measurable objectives and milestones, and a system to monitor the delivery of services, provide for the maintenance of

the Corporation's capabilities over the long term, and provide for the terms and conditions applicable to the services to be rendered by the Corporation.

The Shareholder

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

In accordance with the Shareholder Compact, the Minister must meet the Board of Directors at least once a year. During the reporting period, the Minister met with the Board twice, on 30 April 2020 and 10 December 2020.

Table 18: Board meetings with the Minister of Defence and Military Veterans

Board meetings with Minister of Defence and Military Veterans and attendance of meetings

Board meetings with Minister of Defence and Military Veterans and attendance of meetings		
Board Member	30/04/2020	10/12/2020
Minister NN Mapisa-Nqakula (Shareholder)	P	P
Mr MS Motimele (Acting Chairperson)	P	P
Amb JT Ndhlovu (Acting Deputy Chairperson)	P	P
Dr MB Khanyile	P	ET
Adv. VL de la Hunt	P	R
Mr NM Tyibilika	P	ET
Mr RM Vokwana	A	ET
Ms T Mhlari	P	ET
Adv. SP Mbada (CEO)	P	P
Mr JG Grobler (CFO)	P	P
Dr PD Dexter (Chairperson)	NA	P
Dr RC Lubisi	NA	P
Ms BF Skweyiya-Gushu	NA	P
Maj Gen (ret) LC Pepani	NA	P
Ms R Matenche	NA	P
Ms PN Mashinini	NA	P
Mr TM Sukazi	NA	P

Key: P – Present A – Absent with apology ET – End of term R – Resigned NA – Not appointed yet

4.1.2 THE BOARD OF DIRECTORS

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

The term of office of the majority of non-executive members of the Board was due to expire on 30 April 2020, four of whom had served two terms and could not be re-appointed for a further three-year term. The Minister extended the term of the previous Board by six months from 1 May 2020 to 31 October 2020 as the appointment of new members is a cumbersome process and the induction process takes some time before new members can fulfil their statutory mandates optimally. The expiry of the Board's term was also happening at a time when the country and the world as a whole was focused on fighting the COVID-19 pandemic.

Adv. VL de la Hunt declined the request for a six-month extension and resigned from the Board with immediate effect. The term of office for five non-executive Board members (Amb. Ndhlovu, Mr Vokwana, Dr Khanyile, Mr Tyibilika and Ms Mhlari) was therefore extended to allow the Board to fulfil its mandate and assist the South African National Defence Force (SANDF) in the procurement of items urgently required in the fight against the pandemic. The term of office of Mr MS Motimele, who was the Acting Chairperson at the time, was not due to expire at that time.

The Minister appointed the new Board for a three-year term with effect from 1 December 2020. The new Board has the following non-executive members:

- Dr PD Dexter (Chairperson)
- Mr MS Motimele (Deputy Chairperson)
- Amb JT Ndhlovu (re-appointed for second term)
- Dr RC Lubisi
- Ms BF Skweyiya-Gushu
- Maj Gen (ret) LC Pepani
- Ms R Matenche
- Ms PN Mashinini
- Mr TM Sukazi

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

During the year under review., the Board executed its roles in accordance with the Board Charter. Board roles included:

- Managing and controlling the affairs of the Corporation as set out in section 6(1) of the Armscor Act

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

Board meetings

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

At each meeting, the members of the Board are required to declare any interest they may have in respect of any matter to be decided at that meeting. The declaration of interest is handled as stipulated in the Board Charter. During the year under review, there were no members who declared interest on the matters served before the Board. In preparing documents for submission to the Board, management is required to certify that all relevant information has been placed before the Board to enable the Board to make decisions that serve the interests of the Corporation.

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

During the 2020/21 financial year, the Corporation held four Board meetings, and four special Board meetings. Table 19 and 20 show the meetings and the special meetings of the Board, respectively.

Table 19: Board of Directors and attendance of meetings

Board Member	24/06/2020	26/08/2020	16/10/2020	19/03/2021
Mr MS Motimele (Acting Chairperson)	P	P	P	P
Amb JT Ndhlovu (Acting Deputy Chairperson)	P	P	P	P
Dr MB Khanyile	P	P	P	ET
Mr NM Tyibilika	P	P	P	ET
Mr RM Vokwana	A	P	P	ET
Ms T Mhlari	P	A	P	ET
Adv. SP Mbada (CEO)	P	P	P	P
Mr JG Grobler (CFO)	P	P	P	P
Dr PD Dexter (Chairperson)	NA	NA	NA	P
Dr RC Lubisi	NA	NA	NA	P
Ms BF Skweyiya-Gushu	NA	NA	NA	P
Maj Gen (ret) LC Pepani	NA	NA	NA	P
Ms R Matenche	NA	NA	NA	P
Ms PN Mashinini	NA	NA	NA	P
Mr TM Sukazi	NA	NA	NA	P

Key: P – Present A – Absent with apology ET – End of term NA – Not appointed yet

Table 20: Board of Directors and attendance of special meetings

Special Board of Directors and Attendance of Meetings				
Board Members	18/08/2020	16/09/2020	11/02/2021	12/03/2021
Mr MS Motimele (Acting Chairperson)	P	P	P	P
Amb JT Ndhlovu (Acting Deputy Chairperson)	P	P	P	P
Dr MB Khanyile	P	P	ET	ET
Mr NM Tyibilika	A	P	ET	ET
Mr RM Vokwana	P	P	ET	ET
Ms T Mhlari	A	A	ET	ET
Adv. SP Mbada (CEO)	P	P	P	P
Mr JG Grobler (CFO)	P	P	P	P
Dr PD Dexter (Chairperson)	NA	NA	P	P
Dr RC Lubisi	NA	NA	P	P
Ms BF Skweyiya-Gushu	NA	NA	P	P
Maj Gen (ret) LC Pepani	NA	NA	P	P
Ms R Matenche	NA	NA	P	P
Ms PN Mashinini	NA	NA	P	P
Mr TM Sukazi	NA	NA	P	P

Key: P – Present A – Absent with apology ET – End of term NA – Not appointed yet

Board Engagements with the Portfolio Committee on Defence and Military Veterans (PCDMV)

As prescribed in the Shareholder Compact, the Board of Directors as the accounting authority for the Corporation, must present the Corporation's Annual Report, Financial Statements and Corporate Plan for the year under review to the Minister as the representative of the Shareholder. The Minister tables the reports in the National Assembly in the presence of members of the Board. Before these reports are tabled in the National Assembly, the Board presents the reports to the PCDMV. Table 21 provides information about the Board engagements with the Portfolio Committee on Defence and Military Veterans (PCDMV).

Table 21: Portfolio Committee on Defence and Military Veterans**Board engagements with Portfolio Committee on Defence and Military Veterans and Attendance of Meetings**

Board Member	06/05/2020
Mr MS Motimele (Acting Chairperson)	P
Amb JT Ndhlovu (Acting Deputy Chairperson)	P
Dr MB Khanyile	A
Adv. VL de la Hunt	A
Mr NM Tyibilika	P
Mr RM Vokwana	P
Ms T Mhlari	A
Adv. SP Mbada (CEO)	P
Mr JG Grobler (CFO)	P

Key: P – Present A – Absent with apology

Board Strategic Review Session and Induction

In accordance with King IV principles, all incoming Board members should be inducted to enable them to make the maximum contribution within the shortest time possible. The Armscor Board also assumes collective responsibility for steering and setting the direction of the Corporation; approving policy and planning; overseeing and monitoring of implementation and execution by management; and ensuring accountability for organisational performance. As such, the Board had an induction and strategic review session on 28 and 29 January 2021. The strategic review session was held with Armscor Executives (EXCO) to ensure that the strategy will result in sustainable outcomes and takes into account the national policies and objectives as they relate to the Corporation and the Defence Industry. Table 22 provides information on the two-day strategic review session and induction.

Table 22: Board/EXCO Strategic Review Session and Induction**Board Strategic Session and Induction attendance**

Board Member	28/01/2021	29/01/2021
Dr PD Dexter (Chairperson)	P	P
Mr MS Motimele (Deputy Chairperson)	P	P
Amb JT Ndhlovu	P	P
Dr RC Lubisi	P	P
Ms BF Skweyiya-Gushu	P	P
Maj Gen (ret) LC Pepani	P	P
Ms R Matenche	P	P
Ms PN Mashinini	P	P
Mr TM Sukazi	A	A
Adv. SP Mbada (CEO)	P	P
Mr JG Grobler (CFO)	P	P

Key: P – Present A – Absent with apology

Disqualification of Directors

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

Board Remuneration

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

4.1.3 BOARD COMMITTEES

To promote independent judgment and the effective discharge of its duties, the Board of Armscor established four board committees to execute the mandate of Armscor. The Committees' delegation of powers are recorded in the various terms of reference which are reviewed annually by the committees and approved by the Board. The committees consider submissions from management on critical issues affecting the Corporation and report on their work at each Board meeting.

The Chairperson of the Board, as stipulated in the Board Charter, is responsible for ensuring the integrity and effectiveness of the Board and its committees. As such, the Chairperson of the Board may reconstitute Board Committees in order to ensure that the committees function effectively and efficiently. During the year under review, the Chairperson, established new Board Committees through the application of the following principles: skills; experience; continuity and demographic representation of Committee Chairpersons.

Audit and Risk Committee

The Audit and Risk Committee has been established as a committee of the Board of Directors, in terms of

section 12(2) of the Armaments Corporation Act (Act No. 51 of 2003) read with section 77 of the Public Finance Management Act (Act No. 29 of 1999), section 94 of the Companies Act (Act No. 71 of 2008) and the Armscor Board Charter.

The Committee comprises of a minimum of three (3) independent non-executive directors, as members of the Committee. During the year under review, Ms T Mhlari was appointed as the Chairperson of the Committee until her end of term on 31 October 2020. Ms R Matenche was then appointed as the Chairperson of the Committee effective January 2021.

Unless otherwise directed by the Committee, the following persons have a standing invitation to the meetings of the Committee:

- CEO
- CFO
- Company Secretary
- Chief Audit Executive
- Executive Manager: Information Communication Technology
- Chief Risk Officer or any person performing the risk function
- Auditor-General or his/her representative.

The Committee assists the Board of Directors in discharging the following oversight responsibilities:

- Ensuring that the Armscor group has and maintains effective, efficient and transparent systems of financial and risk management, and internal control
- Ensuring the enforcement of adequate systems and control processes in the Corporation for the safeguarding of assets and the management of the revenue, expenditure and liabilities of the group
- Preparing accurate financial reporting and monitoring compliance with all applicable legal requirements and accounting standards
- Ensuring corporate accountability and managing the associated risks in terms of management, assurance and reporting.

Table 23: Audit and Risk Committee meetings

Audit and Risk Committee and Attendance of Meetings				
Members	15/7/2020	24/07/2020	11/03/2021	
Ms T Mhlari (Chairperson)	P	P	ET	
Dr MB Khanyile	P	P	ET	
Mr RM Vokwana	P	P	ET	
Adv. SP Mbada (CEO)	P	P	P	
Mr JG Grobler (CFO)	P	P	P	
Ms R Matenche (Chairperson)	NA	NA	P	
Dr RC Lubisi	NA	NA	P	
Ms BF Skweyiya-Gushu	NA	NA	P	
Mr TM Sukazi	NA	NA	P	

Key: P – Present A – Absent with apology ET – End of term NA – Not appointed yet

Special meetings of the Audit and Risk Committee

Members	18/06/2020	28/09/2020	12/10/2020	10/02/2021
Ms T Mhlari (Chairperson)	P	P	P	ET
Dr MB Khanyile	P	P	P	ET
Mr RM Vokwana	P	A	A	ET
Adv. SP Mbada (CEO)	P	P	P	P
Mr JG Grobler (CFO)	P	P	P	P
Ms R Matenche (Chairperson)	NA	NA	NA	P
Dr RC Lubisi	NA	NA	NA	P
Ms BF Skweyiya-Gushu	NA	NA	NA	P
Mr TM Sukazi	NA	NA	NA	P

Key: P – Present A – Absent with apology ET – End of term NA – Not appointed yet

Technology, Industry Support and Sustainability Committee

The Technology, Industry Support and Sustainability Committee consists of a minimum of three non-executive directors and two executive directors (being the CEO and the CFO). Mr NM Tyibilika was the Chairperson of the Committee until his end of term on 31 October 2020. Dr RC Lubisi was then appointed as the Chairperson of the Committee effective January 2021.

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

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

Table 24: Technology, Industry Support and Sustainability Committee and attendance of meetings

Meetings of Technology, Industry Support and Sustainability Committee		
Members	16/07/2020	24/02/2021
Mr NM Tyibilika (Chairperson)	P	ET
Amb JT Ndhlovu	P	P
Mr RM Vokwana	A	ET
Adv. VL de la Hunt	R	R
Adv. SP Mbada (CEO)	P	P
Mr JG Grobler (CFO)	P	P
Dr RC Lubisi (Chairperson)	NA	P
Ms BF Skweyiya-Gushu	NA	P
Mr MS Motimele	NA	P

Key: P – Present A – Absent with apology NA – Not appointed in Committee R - Resigned

Acquisition Committee

The Acquisition Committee consists of a minimum of three non-executive directors and two executive directors (being the CEO and the CFO). During the year under review, Mr RM Vokwana was appointed as the Chairperson of the Committee until his end of term on 31 October 2020. Mr TM Sukazi was then appointed as the Chairperson of the Committee effective January 2021.

The acquisition of defence matériel requirements of the Department of Defence (DOD) is one of the main objectives of the Corporation as set out in Section 3(1) (a) of the Armaments Corporation Act (Act No. 51 of 2003) (as amended). As such, the role of the Committee is to assist the Board with the balancing of power and the effective discharge of its responsibilities by:

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

During the reporting period, the Committee had the following scheduled meetings and special meetings:

Table 25: Acquisition Committee meetings

Acquisition Committee and Attendance of Meetings			
Members	17/07/2020	14/10/2020	11/02/2021
Mr RM Vokwana (Chairperson)	P	P	ET
Dr MB Khanyile	P	P	ET
Mr NM Tyibilika	P	P	ET
Adv. SP Mbada (CEO)	P	P	P
Mr JG Grobler (CFO)	P	P	P
Mr TM Sukazi (Chairperson)	NA	NA	P
Mr MS Motimele	NA	NA	P
Ms PN Mashinini	NA	NA	P
Maj Gen (ret) LC Pepani	NA	NA	P

Key: P – Present A – Absent with apology ET – End of term NA – Not appointed yet

Table 26: Special meetings of the Acquisition Committee**Acquisition Committee and Attendance of special meetings**

Members	24/06/2020	08/03/2021	19/03/2021
Mr RM Vokwana (Chairperson)	A	ET	ET
Dr MB Khanyile	P	ET	ET
Mr NM Tyibilika	P	ET	ET
Adv. SP Mbada (CEO)	P	P	P
Mr JG Grobler (CFO)	P	P	P
Mr TM Sukazi (Chairperson)	NA	P	P
Mr MS Motimele	NA	P	P
Ms PN Mashinini	NA	P	P
Maj Gen (ret) LC Pepani	NA	P	P

Key: P – Present A – Absent with apology ET – End of term NA – Not appointed yet

Human Resources, Social and Ethics Committee

The Human Resources, Social and Ethics Committee consists of a minimum of three non-executive directors and two executive directors (being the CEO and the CFO). Dr MB Khanyile was the Chairperson of the Committee upon the resignation of Adv. De la Hunt. With the appointment of new Board members, Ms PN Mashinini was appointed as the Chairperson of the Committee effective January 2021.

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

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

Table 27: Meetings of the Human Resources, Social and Ethics Committee**Human Resource, Social and Ethics Committee and Attendance of Meetings**

Members	16/07/2020	24/02/2021
Dr MB Khanyile (Chairperson)	P	ET
Ms T Mhlari	P	ET
Amb JT Ndhlovu	P	P
ADV. SP Mbada (CEO)	P	P
Mr JG Grobler (CFO)	P	P
Ms PN Mashinini (Chairperson)	NA	P
Maj Gen (ret) LC Pepani	NA	P
Ms R Matenche	NA	P

Key: P – Present A – Absent with apology ET – End of term NA – Not appointed yet

Special meetings of the Human Resource, Social and Ethics Committee

Members	12/10/2020
Dr MB Khanyile (Chairperson)	P
Ms T Mhlari	P
Amb JT Ndhlovu	P
Adv. SP Mbada (CEO)	P
Mr JG Grobler (CFO)	P
Ms PN Mashinini	NA
Maj Gen (ret) LC Pepani	NA
Ms R Matenche	NA

Key: P – Present NA – Not appointed in committee

4.1.4 FINANCIAL REPORTING

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

The Financial Statements set out in this report have been prepared by management in accordance with SA GRAP and the Companies Act (Act No. 71 of 2008) and are based on appropriate accounting policies supported by reasonable and prudent judgements and estimates.

The Directors are of the opinion that the financial statements fairly represent the financial position of the Corporation as at 31 March 2021, the results of their operations and cash flows for the year then ended.

The Board has reviewed the group's financial budgets for the period 1 April 2021 to 31 March 2022 and is satisfied that adequate resources exist to sustain the Corporation's operations. Armscor is, furthermore, in discussion with the Department of Defence to ensure proper funding for the required functions to be performed. The directors, therefore, have no reason to believe that Armscor will not remain a going concern in the foreseeable future.

Dividends

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

Post Balance Sheet Events

Except for matters disclosed in the financial statements in note 49, no other material facts or significant circumstances, which affect the financial position of

this Corporation or group have arisen between the date of the balance sheet and the production date of this report.

4.1.5 LITIGATION

In relation to special defence acquisition done for the Department of Defence, the following were instituted against Armscor.

Beverly Securities

The claim is for commission in the amount of € 192 million against Armscor for services allegedly rendered by Plaintiff's (Beverly Securities Ltd and Beverly Securities Inc.), represented by one Jorge Pinhol as agent in establishing a clandestine Portuguese channel during the 1980s for transportation of 50 Oryx helicopters in kit form. The existence of an agency agreement wherein Armscor appointed Plaintiffs to assist as intermediary in establishing a clandestine Portuguese channel is in dispute. The Plaintiff has made an application in the High Court in Pretoria to compel the Auditor-General of South Africa (AGSA) to make available documentation in his possession in support of its main claim. The Plaintiff has not applied for a court date in this matter.

In respect of the main application to be heard in Lisbon, all the preliminary work has been done except the submission of the expert report. The expert reports from both parties shall be submitted to the Court during the second half of 2021. The matter is considered ripe for hearing following a long delay as a result of the COVID-19 pandemic, court date is awaited.

Quaker Peace Centre

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

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

Alternatively an order is sought directing the Defendants to tender the return of the aircraft acquired to the Third Defendant (Seller) against repayment of all amounts paid to the Third Defendant. Armscor and the relevant Government departments are defending the matter and have filed pleas in the defence of the matter. The Plaintiff indicated during June 2020 that the amended particulars of claim would be filed. Such amended particulars of claim were received during the first quarter of 2021 with no material amendments. The matter is progressing in the normal course.

Patria Land OY

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

The claim amounted to Euro 17 601 975.82 plus ZAR 258 168, 19. Armscor is defending the matter and filed an Exception. Following the Exception, the Plaintiff initially requested Armscor's indulgence in delaying the proceedings instituted in the High Court. Armscor notified the Plaintiff that it is not in favour of any delay in the proceedings and further requested the Plaintiff to withdraw the matter against Armscor and to tender the necessary costs.

The Plaintiff proceeded to file the amended particulars of claim. In the amended particulars of claim, the Plaintiff has included an additional claim in respect of goods packages that were not included in the initial claim. Armscor responded and filed its plea. Armscor has paid all invoices that are payable in terms of the conditions of the contract.

The Plaintiff has not approached the Court for a trial date and has submitted a settlement proposal wherein it is required that Armscor make payment in respect of the additional claim in respect of the goods packages. Armscor did not accept the proposal as Armscor does not have a contractual relationship with the Plaintiff. There is therefore no obligation to make payment in this regard. The matter is progressing in the normal course.

4.2 REPORT OF THE AUDIT AND RISK COMMITTEE

INTRODUCTION

The Audit and Risk Committee is a statutory body established as a committee of the Board of Directors, in terms of section 12(2) of the Armaments Corporation Act No. 51 of 2003, sections 38(1)(a)(ii), 51(1)(a)(ii) and 77 of the Public Finance Management Act No 29 of 1999, section 94 of the Companies Act, No. 71 of 2008. The Audit and Risk Committee has adopted the terms of reference approved by the Board of Directors and has discharged its responsibilities and conducted its affairs in accordance with these terms of reference. This report sets the basis for reporting by the Audit and Risk Committee on the oversight responsibilities undertaken by the Committee in the financial year ended 31 March 2021.

1. GOVERNANCE OF RISK

1.1 The Committee is required to fulfil an oversight role on financial reporting, internal financial controls, compliance risks, fraud risks and IT risks as it relates to financial reporting. The Committee has:

- 1.1.1. provided an oversight role and responsibilities in the financial reporting, internal financial controls, compliance risks, fraud risks and IT risks. The Committee provided oversight in the preparation of accurate financial reporting and monitored compliance with all applicable legal requirements and accounting standards;
- 1.1.2. ensured that the Armscor Group has and maintains effective, efficient and transparent systems of financial; risk management, governance and internal control;
- 1.1.3. ensured the enforcement of adequate systems and control processes in the Corporation for the safeguarding of assets and the management of the revenue, expenditure and liabilities of the Group;
- 1.1.4. ensured corporate accountability and governance and the associated risk in terms of management, assurance and reporting.

1.2 Financial Year 2020/2021 has been a challenging year, with the risk of coronavirus (COVID-19) noted as one of the high risks to be considered for risk management and oversight by the Committee. The Committee provided oversight over the COVID-19 related risks. The Committee provided oversight over the approach adopted by management in dealing with the risks of the said virus. These approaches included, limiting office attendance in order to curb the spread of the virus within the organisation and ensuring the strict observation and adherence of the COVID-19 regulations by the organisation.

1.3 The Committee ensured the establishment of the process towards the monitoring of the Combined Assurance for the coordinated assurance efforts in mitigating the Corporation's risks by the existing assurance providers within the Corporation.

2. INTERNAL CONTROL ENVIRONMENT

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

The Audit and Risk Committee regularly reported to the Board on its activities and made recommendations to advise the Board, Management and Internal Audit as part of execution of its oversight responsibilities.

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

- Risks are properly managed and reduced to acceptable levels;
- assets are safeguarded;
- financial and operational information is reliable;
- operations are effective and efficient;
- resources are acquired economically, used efficiently and adequately protected;

- programmes, plans and objectives are achieved;
- quality and continuous improvements are fostered in the organisation's control process; and
- significant legislative or regulatory issues impacting the organisation are recognised and addressed appropriately.

3. ANNUAL FINANCIAL STATEMENTS

During the financial year 2020/21 Armscor maintained the adherence to the requirements of the Standards of Generally Recognised Accounting Practice (GRAP), which was adopted in the financial year 2018/19. The Committee provided oversight on the alignment and compliance to GRAP, the new accounting framework. The Audit and Risk Committee has evaluated the Annual Financial Statements of the Armscor Group for the year ended 31 March 2021 and considered that it complies, in all material respects, with the requirements of the Public Finance Management Act (Act No. 1 of 1999), as amended, as well as the Standards of Generally Recognised Accounting Practice (GRAP). This compliance comes in after the adjustments on the financial statements relating to material misstatements of the cash flow statement, commitments, cash and cash equivalents, employee benefit provisions, as well as accounting for principle and agent disclosures were made.

Furthermore, the Committee has reviewed the results of the external audit on the Annual Financial Statements and accordingly concurs with the opinion expressed therein. The Committee has also noted that, an unqualified audit opinion has been issued by the Auditor General for the year under review and the committee recommended the adoption of this Annual Report to the Board of Directors.

In this regard the Audit and Risk Committee would like to express its appreciation to management and Internal Audit for their commitment in strengthening the internal control environment of Armscor.

4. REVIEW AUDIT REPORT AND MANAGEMENT REPORT

The Committee noted the outcome of the external audit on the inadequate oversight responsibility exercised by management over financial reporting. The Committee agree with the external audit that the oversight was due to the limitation posed by the use of legacy systems for the compilation of the financial statements, which also resulted in material adjustments impacting

non-compliance. The Committee has accepted the undertaking by management to address the issues of legacy systems that precludes management in the provision of the effective oversight over financial reporting. The Committee will continue to monitor the eradication of legacy system and exercising the oversight responsibility required.

The Committee noted and understood the reasons for the emphasis of matter and the impact thereof on the financial statements, the entity's operations and assessed the adequacy of planned action by management to rectify the emphasis of matter.

5. QUARTERLY REPORTING

The Committee has reviewed and satisfied itself on the quarterly reporting submitted to the Committee and on the basis of explanations provided by management to the Committee regarding the accuracy, reliability and adequacy of information contained in these quarterly reports.

The Committee has also reviewed the changes in accounting policies and practices, the quality and timeliness of the financial information made available to the Committee, compliance of the Corporation with the applicable legal and regulatory provisions, information on predetermined objectives included in the annual reporting.

6. INTERNAL AUDIT

The Board of Directors delegated oversight of the Internal Audit to the Audit and Risk Committee and approved the position of the Chief Audit Executive (CAE) to lead and manage Internal Audit and has ensured that the CAE position is set up to function independently from management.

The Audit & Risk Committee has provided the oversight responsibility over the Internal Audit and has:

- Reviewed and approved the Internal Audit Charter and provided oversight of the CAE's independence and objectivity in discharging his duties in accordance with the International Standards of Professional Practice in Internal Auditing (ISPPA) and the approved Internal Audit Charter.
- Continually ensured the independence of the CAE and Internal Audit by ensuring that the CAE reports functionally to the Committee and administratively to the CEO.

- Reviewed the independence of the CAE and the Internal Audit to ensure that the CAE and Internal Audit is independent and free of influence by management and carried his assurance duties objectively.
- Empowered the CAE and Internal Audit function to have necessary authority and unrestricted access to information and records in order for Internal Audit to execute its work without restrictions and impairment in its independence and objectivity.
- Reviewed and approved the risk-based Internal Audit Plan for the financial year 2020/21 and ensured that Internal Audit carried its work in accordance with the approved plan.
- Provided oversight on the work of Internal Audit and assessed Internal Audit report on a quarterly basis and directed that matters of material risks reported by, Internal Audit are addressed by management.
- Noted the results of the external quality assurance review (QAR) on Internal Audit by the Institute of Internal Auditors (SA) and monitored the implementation of the recommendations of the Quality Assurance Review via the Quality Assurance and Improvement Program (QAIP) by Internal Audit.

7. EXTERNAL AUDIT

The Audit and Risk Committee has an oversight responsibility over the external auditors. The following oversight responsibilities were carried by the Committee in discharging its duties relating to the External Auditors. The Committee:

- ensured that the external auditors are independent and therefore is satisfied with the independence and objectivity of the external auditors.

- is satisfied with the qualifications and the level of expertise of the external auditors.
- provided oversight over the strategic plan presented by external auditors and the plan was approved in the light of costs, resources and areas of audit considered.
- reviewed the effectiveness of the external auditors, through the fulfilment of the strategic plan and handling of key accounting treatment and disclosures.

8. FINANCE FUNCTION

The Committee has considered and satisfied itself with the finance function for appropriateness, expertise and adequacy of its structure. The finance function's resources to deliver the financial mandate inherent to the finance function could be enhance through the eradication of legacy systems.

9. COMBINED ASSURANCE

The Committee has provided the oversight responsibility over the establishment of the Combined Assurance in accordance with the requirements of the King IV Code. The Committee has provided the monitoring role to ensure that the implementation of the Combined Assurance model is progressing and supported.

10. SIGNATURES

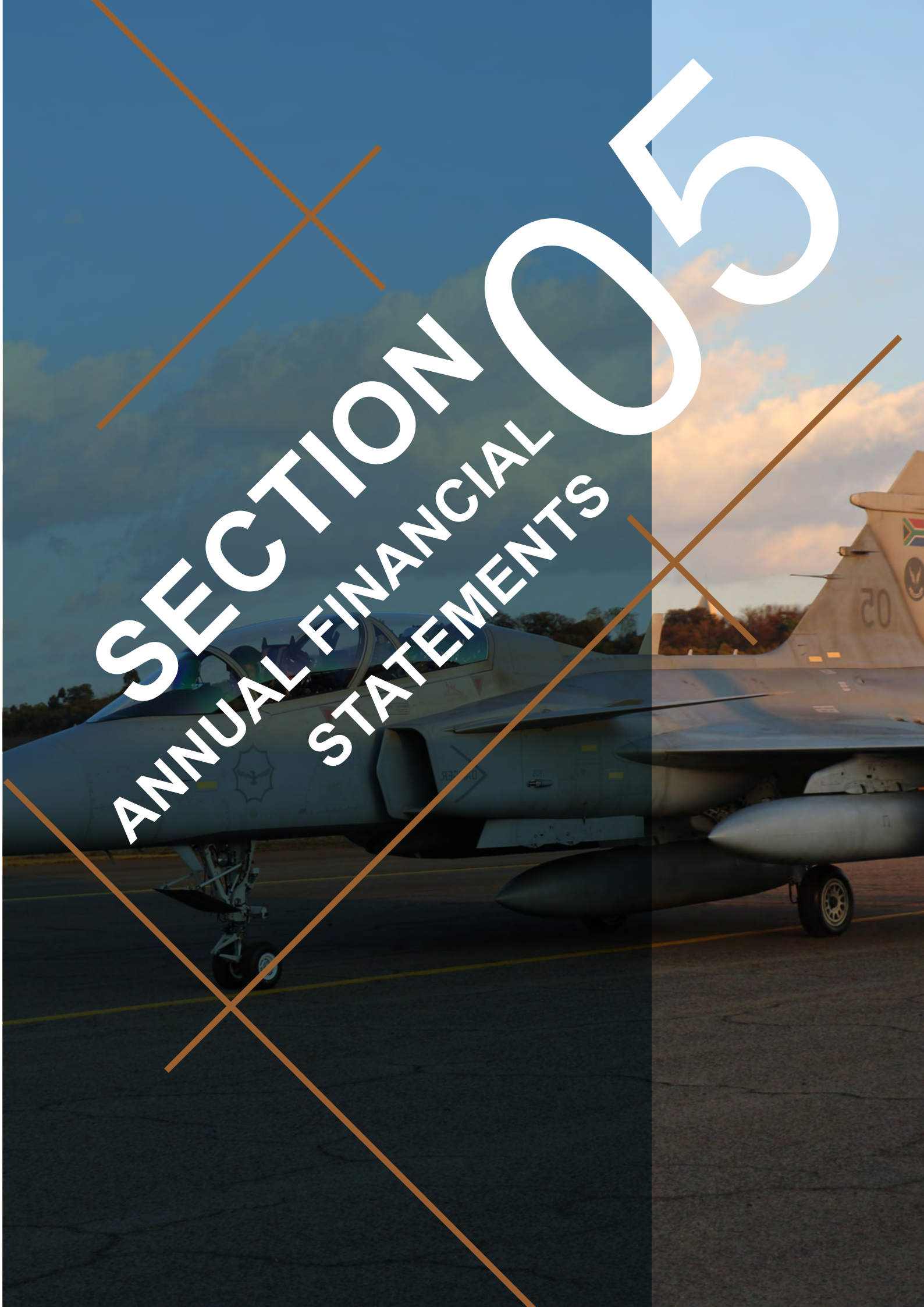


MS R MATENCHE

CHAIRPERSON: AUDIT AND RISK COMMITTEE

SECTION 05

ANNUAL FINANCIAL STATEMENTS



5. ANNUAL FINANCIAL STATEMENTS

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

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the Armaments Corporation of South Africa SOC Ltd and its subsidiaries (the group) set out on pages 121 to 195 which comprise the consolidated and separate statement of financial position as at 31 March 2021, consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the group as at 31 March 2021, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Companies Act 71 of 2008 (Companies Act).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of my report.
4. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for*

professional accountants (including International Independence Standards) (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

Emphasis of matter

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

Restatement of corresponding figures

7. As disclosed in note 48 to the financial statements, the corresponding figures for 31 March 2020 were restated as a result of errors in the financial statements of the entity at, and for the year ended, 31 March 2021.

Other matter

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

Unaudited supplementary schedules

9. The supplementary information set out on pages 119 to 120 as well as on page 196 does not form part of the financial statements and is presented as additional information. I have not audited this information and, accordingly, I do not express an opinion on it.

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

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

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

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

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

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

Report on the audit of the annual performance report

Introduction and scope

14. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

15. My procedures address the usefulness and reliability of the reported performance information, which must be based on the entity's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the entity enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

16. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objective presented in the entity's annual performance report for the year ended 31 March 2021:

Objectives	Pages in the annual performance report
Goal 1: category 1 capital defence matériel acquisition excluding strategic defence acquisition but including technology acquisition	35

17. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

18. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected objective.

Report on the audit of compliance with legislation

Introduction and scope

19. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

20. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

21. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(b) of the PFMA. Material misstatements of the cash flow statement, commitments, cash and cash equivalents, employee benefit provisions, as well as accounting for principle and agent disclosures, identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified audit opinion.

Other information

22. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report, the audit committee's report and the company secretary's certificate, as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's

report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

23. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

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

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

Internal control deficiencies

26. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

27. Senior management did not exercise sufficient oversight responsibility over financial reporting. This was mainly a result of insufficient reviews by management, combined with system-imposed limitations linked to the legacy systems used to compile the financial statements, which resulted in material adjustments impacting non-compliance.

Auditor-General

Pretoria

08 September 2021



Annexure – Auditor-general's responsibility for the audit

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

Financial statements

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

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority
- conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the

financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the entity and its subsidiaries to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause an entity to cease operating as a going concern

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

GROUP: FIVE YEAR REVIEW AS AT 31 MARCH 2021(UNAUDITED)

Statement of Financial Position	2021	2020 (Restated)	2019	2018	2017
Net Assets					
Property, plant and equipment	1 690 390	1 731 296	1 874 788	1 459 078	1 504 693
Investment property	50 730	47 270	48 400	45 500	72 900
Intangible assets	21 677	18 639	17 577	14 608	12 839
Heritage assets	13 829	13 829	13 829	13 259	-
Other non-current assets	-	-	1 540	-	3 072
Other non-current liabilities	(27 204)	(65 161)	(27 197)	(28 856)	(47 329)
Net current assets	593 685	768 235	182 300	425 887	574 415
Financial instruments	883 226	556 973	877 634	368 179	131 394
Post-retirement employee benefit obligation	(304 173)	(273 189)	(226 164)	(237 390)	(218 601)
	2 922 160	2 797 892	2 762 707	2 060 265	2 033 383
Net Assets	2 922 160	2 797 892	2 762 707	2 060 265	2 033 383
Statement of Financial Performance					
Revenue					
Sale of goods and services	301 812	389 585	381 112	473 944	403 274
Government grants (including deferred income recognised)	1 113 324	1 175 762	1 134 103	1 057 675	860 227
Interest income	89 169	104 677	78 642	71 601	75 055
Rental income	71 421	68 045	143 574	25 989	24 386
Donations received	-	-	441	136	-
Other income	15 091	21 996	16 255	31 407	36 023
	1 590 817	1 760 065	1 754 127	1 660 752	1 398 964
Total Surplus/(Deficit) for the year	124 267	179 545	235 311	(10 086)	(187 627)

VALUE-ADDED STATEMENT AS AT 31 MARCH 2021 (UNAUDITED)

	March 2021		March 2020	
	R'000	%	R'000	%
Revenue	1 590 817		1 760 065	
Sales of goods and services	301 812		389 585	
Government grant (including deferred income recognised)	1 113 324		1 175 762	
Rental income	71 421		68 045	
Other income	13 087		19 919	
Interest received	89 169		104 677	
Dividends received	2 004		2 077	
Donations	-		-	
Less: Paid to suppliers for materials and services	-227 650		-347 717	
Total value added	1 363 167	100%	1 412 348	100%
Distributed as follows:				
To employees as salaries, wages and other benefits	1 123 375	82%	1 118 558	79%
To lenders of capital as interest (Remember intergroup int.)	-		-	
To governments as taxation (see below)	21 366	2%	21 881	2%
Total value added distributed	1 144 741		1 140 439	
Portion of value added reinvested to sustain and expand the business	218 426	16%	271 909	19%
[Profit/(loss) plus depreciation]				
Total value added distributed and reinvested	1 363 167	100%	1 412 348	100%
Taxation				
Paid in taxes to governments	21 366		21 881	
Income tax (received)/paid	5 453		5 615	
Rates and taxes to local authorities (note 1)	15 913		16 267	
Collected on behalf of, and paid over to government	477 487		470 910	
• Employees taxation deducted from remuneration paid	279 980		282 133	
• Unemployment Insurance Fund	2 713		2 827	
• Net value added taxation (VAT)	194 794		185 950	

Note1

UIF	2 713 201	2 826 927
Municipal rates	13 200 189	13 439 661
	<u>15 913 390</u>	<u>16 266 588</u>

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2021

	Note(s)	2021 R'000	2020 Restated R'000
Assets			
Current Assets			
Inventories	3	13 989	10 048
Current tax receivable	4	63	-
Receivables from exchange transactions	5	100 900	222 885
Receivables from non-exchange transactions	6	1 409	-
Cash and cash equivalents	7	812 656	864 930
		929 017	1 097 863
Non-Current Assets			
Investment property	8	50 730	47 270
Property, plant and equipment	11	1 690 390	1 731 296
Intangible assets	12	21 677	18 639
Heritage assets	13	13 829	13 829
Investment in joint ventures	14	-	-
Financial instruments	15	883 226	556 973
		2 659 852	2 368 007
Total Assets		3 588 869	3 465 870
Liabilities			
Current Liabilities			
Current tax payable	4	-	5 019
Payables from exchange transactions	16	117 274	102 978
Payable from non-exchange transactions	17	51 072	52 812
Deferred income	18	64 818	32 025
Provisions	19	91 852	133 839
VAT payable		10 316	2 955
		335 332	329 628
Non-Current Liabilities			
Employee benefit obligation	20	304 173	273 189
Deferred income	18	19 851	63 007
Deferred tax	21	7 353	2 154
		331 377	338 350
Total Liabilities		666 709	667 978
Net Assets			
		2 922 160	2 797 892
Share capital/contributed capital	22	75 000	75 000
Reserves			
Revaluation reserve	23	1 674 637	1 702 618
Other non-distributable reserves	24	439 535	423 652
Accumulated surplus		732 988	596 622
Total Net Assets		2 922 160	2 797 892

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2021

	Note(s)	2021 R'000	2020 Restated R'000
Revenue			
Revenue from exchange transactions			
Sale of goods		31 240	40 690
Rendering of services		270 572	348 895
Deferred income recognised		37 545	29 716
Rental income		71 421	68 045
Other income		13 087	19 919
Interest received	26	89 169	104 677
Dividends received	26	2 004	2 077
Total revenue from exchange transactions		515 038	614 019
Revenue from non-exchange transactions			
Transfer revenue			
Government grant	27	1 075 779	1 146 046
Total revenue	25	1 590 817	1 760 065
Expenditure			
Employee related costs	28	(1 123 375)	(1 118 558)
Depreciation and amortisation		(94 159)	(92 364)
Lease rentals on operating leases	29	(2 091)	(2 162)
Impairment losses reversed	30	29 032	8 743
Cost of sales	31	(114 360)	(154 398)
General expenses	32	(189 239)	(207 212)
Total expenditure		(1 494 192)	(1 565 951)
Operating surplus		96 625	194 114
Gain on disposal of assets and liabilities		1 202	18 114
Profit on foreign exchange transactions		197	2 310
Fair value adjustments	33	31 787	(35 323)
Share of surplus from joint venture		-	2 457
Inventories losses/write-downs		-	(199)
		33 186	(12 641)
Surplus before taxation		129 811	181 473
Taxation	35	5 544	1 928
Surplus for the year		124 267	179 545

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 MARCH 2021

	Share capital/ contributed capital R '000	Revaluation reserve R '000	Other NDR R '000	Total reserves R '000	Accumulated surplus R '000	Total net assets R '000
Opening balance as previously reported	75 000	1 819 775	426 904	2 246 679	441 028	2 762 707
Adjustments Prior year adjustments	-	-	-	-	(55 101)	(55 101)
Balance at 01 April 2019 as restated	75 000	1 819 775	426 904	2 246 679	385 927	2 707 606
Changes in net assets	-	(89 259)	-	(89 259)	-	(89 259)
Impairment losses on revalued capital assets	-	(89 259)	-	(89 259)	-	(89 259)
Net income (losses) recognised directly in net assets	-	(89 259)	-	(89 259)	-	(89 259)
Surplus for the year	-	-	-	-	179 546	179 546
Total recognised income and expenses for the year	-	(89 259)	-	(89 259)	179 546	90 287
Transfer from/(to) surplus/deficit	-	(27 898)	(3 252)	(31 150)	31 150	-
Total changes	-	(117 157)	(3 252)	(120 409)	210 696	90 287
Balance at 01 April 2020	75 000	1 702 618	423 652	2 126 270	596 623	2 797 893
Changes in net assets	-	-	-	-	124 267	124 267
Surplus for the year	-	-	-	-	124 267	124 267
Transfer from/(to) surplus/deficit	-	(27 981)	15 883	(12 098)	12 098	-
Total changes	-	(27 981)	15 883	(12 098)	136 365	124 267
Balance at 31 March 2021	75 000	1 674 637	439 535	2 114 172	732 988	2 922 160
Note(s)	22	23	24			

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2021

	Note(s)	2021 R'000	2020 Restated R'000
Cash flows from operating activities			
Receipts			
Sale of goods and services		541 113	564 946
Grants received		1 075 779	1 146 046
Interest income		98 079	84 161
Other receipts		13 087	19 919
		<u>1 728 058</u>	<u>1 815 072</u>
Payments			
Employees costs		(1 193 209)	(1 191 389)
Suppliers		(230 664)	(360 688)
Taxes on surpluses		(5 427)	(6 804)
		<u>(1 429 300)</u>	<u>(1 558 881)</u>
Net cash flows from operating activities	36	298 758	256 191
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(51 183)	(36 300)
Proceeds from sale of property, plant and equipment	11	-	1 985
Purchase of intangible assets	12	-	(1 126)
Capitalised development costs	12	(5 232)	(2 518)
(Increase)/decrease in investments		(296 622)	303 898
Dividends received		2 004	6 073
Net cash flows utilised for investing activities		(351 033)	272 012
Cash flows from financing activities			
Net cash flows from financing activities		-	-
Net decrease in cash and cash equivalents		(52 275)	528 203
Cash and cash equivalents at the beginning of the year		<u>864 930</u>	<u>336 727</u>
Cash and cash equivalents at the end of the year	7	812 655	864 930

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 31 MARCH 2021

BUDGET ON ACCRUAL BASIS

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Difference between final budget and actual	Note
	R '000	R '000	R '000	R '000	R '000	%	
Statement of Financial Performance							
Revenue							
Revenue from exchange transactions							
Sale of goods	15 458	-	15 458	31 240	15 782	102 %	1.1
Rendering of services	884 599	(152 031)	732 568	270 572	(461 996)	(63)%	1.2
Deferred income	11 732	-	11 732	37 545	25 813	220 %	1.3
Rental income	24 361	-	24 361	71 421	47 060	193 %	1.4
Other income	58 672	(15 000)	43 672	13 087	(30 585)	(70)%	1.5
Interest received	79 639	(37 801)	41 838	89 169	47 331	113 %	1.6
Dividends received	-	-	-	2 004	2 004	100 %	1.7
Total revenue from exchange transactions	1 074 461	(204 832)	869 629	515 038	(354 591)	(41)%	
Revenue from non-exchange transactions							
Transfer revenue							
Government grants & subsidies	1 228 846	(104 348)	1 124 498	1 075 779	(48 719)	(4)%	
Total revenue	2 303 307	(309 180)	1 994 127	1 590 817	(400 097)	(20)%	
Expenditure							
Personnel	(1 226 997)	-	(1 226 997)	(1 123 375)	103 622	(8)%	
Depreciation and amortisation	(88 553)	-	(88 553)	(94 159)	(5 606)	6 %	
Lease rentals on operating leases	(27 285)	-	(27 285)	(2 091)	25 194	(92)%	2.1
Debt impairment	(116)	-	(116)	29 032	29 148	(25 128)%	2.2
Cost of sales	(642 874)	65 143	(577 731)	(114 360)	463 371	(80)%	2.3
General expenses	(317 609)	-	(317 609)	(189 239)	128 370	(40)%	2.4
Total expenditure	(2 303 434)	65 143	(2 238 291)	(1 494 192)	744 099	(33)%	

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 31 MARCH 2021

BUDGET ON ACCRUAL BASIS

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Difference between final budget and actual	Note
	R '000	R '000	R '000	R '000	R '000	%	
Operating surplus	(127)	(244 037)	(244 164)	96 625	340 789	(140)%	
Gain on disposal of assets and liabilities	-	-	-	1 202	1 202	100 %	3.1
Gain on foreign exchange transactions	839	-	839	197	(642)	(77)%	3.2
Fair value adjustments	-	-	-	31 787	31 787	100 %	3.1
	839	-	839	33 186	32 347	3 855 %	
Surplus before taxation	712	(244 037)	(243 325)	129 811	373 136	(153)%	
Taxation	-	-	-	5 544	5 544	100 %	4.1
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	712	(244 037)	(243 325)	124 267	367 592	(151)%	

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

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

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

Variances above 10% on sub-total are explained below:

1. Total revenue

The reasons for the variances are as follows:

- 1.1 Opportunities realised for revenue related to the fight against COVID-19 resulted in an improved sales.
- 1.2 The slow activity within the defence industry impacted the revenue within the logistics environment.
- 1.3 Higher than estimated conditional funding received in the prior years was utilised within the Dockyard operations.
- 1.4 The budget did not make allowance for income related to rental escalations as these were not being paid by the lessee. However, extensive engagements resulted in the company managing to receive the escalations related to the current financial year.
- 1.5 Commercial revenue for the facilities was lower than planned mainly due to the non-availability of the dry-docking facilities at the Dockyard, particularly the syncro-lift, impact of COVID-19 lockdown on R&D facilities and reduction in the main allocation.
- 1.6 Continuous efforts to maximise the return from investments in order to fund the shortfall for operating costs and capital expenditure resulted in the Group attaining higher interest income than budgeted for.
- 1.7 Dividends received relate to the Armscor Medical Benefit Fund, which is not included in the operational budget of Armscor.

2. Total operating expenditure

The reasons for the variances are as follows:

- 2.1 Intracompany lease rental transactions are eliminated for statutory reporting purposes.
- 2.2 Armscor aims to collect all debts due and thus minimal debt provision is allowed for in the budget. The difference in debt impairment reflect net provision reversed in the current year.
- 2.3 The lower sales directly influenced the lower cost of sales figures.
- 2.4 General expenses were lower due to continued cost containment measures in place to mitigate against reducing revenue. Substantial savings were mainly realised from the employee related, subsistence & travel, consulting & professional and printing & communication expenditure items.

3. Other comprehensive surplus/ deficit

- 3.1 These items can not be predetermined and therefore were not budgeted for.
- 3.2 The difference are due to actual exchange rate and actual sales from the applicable divisions were different from the anticipated budget.

4. Taxation

- 4.1 The Armscor Medical Benefit Fund is taxed at 45% (2020: 45%) for the year and is not included in the operational budget. Armscor is exempted from income tax in terms of Section 10(1)(t)(v) of the Income Tax Act no. 58, as amended.

5. Other

- 5.1 Initial approved budget was adjusted to reflect the impact of COVID-19 lockdown on the operations of the group.

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

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

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

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

Mandate

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 DOD effectively, efficiently and economically.

These Acts furthermore provides that Armcor must adhere to accepted corporate governance principles, best business

practices and Standards of Generally Recognised Accounting Practices within a framework of established norms and standards that reflect fairness, equity, transparency, economy, efficiency, accountability and lawfulness.

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

1.1 FINANCIAL POLICY

Activities are financed as follows:

a) Armcor's operating funds

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

b) Operating capital and fixed capital of the Group

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

c) Procurement of armaments

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

1.2 ACCOUNTING POLICY

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

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.3 GOING CONCERN ASSUMPTION

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

1.4 CONSOLIDATION

Basis of consolidation

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

The consolidated annual financial statements incorporate the annual financial statements of the controlling entity and all controlled entity, including special purpose entities, which are controlled by the controlling entity.

Consolidated annual financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

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

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

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

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

Jointly controlled entities

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

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

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

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

1.5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

a) Trade receivables / Held to maturity investments and/or loans and receivables

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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

On receivables an impairment loss is recognised in surplus or deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

b) Fair value estimation

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

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

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

c) Impairment testing

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

require a material adjustment to the carrying value of goodwill and tangible assets.

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

d) Provisions

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

e) Employee benefits

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

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

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

f) Effective interest rate

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

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.6 INVESTMENT PROPERTY

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

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

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

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

An investment property shall be derecognised on disposal (including disposal through a non-exchange transaction) or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Fair value

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

The fair value of investment property reflects market conditions at the reporting date.

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

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

1.7 PROPERTY, PLANT AND EQUIPMENT

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

a) Land and buildings

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

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

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.7 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

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

b) Plant and equipment

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

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

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

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

Item	Depreciation method	Average useful life
Buildings	Straight line	3 - 70 years
Plant and machinery	Straight line	5 - 15 years
Furniture, fixtures and computers	Straight line	2 - 20 years
Motor vehicles and vessels	Straight line	5 - 15 years

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

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

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

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

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

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

1.8 INTANGIBLE ASSETS

An intangible asset is recognised when:

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

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

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.8 INTANGIBLE ASSETS (CONTINUED)

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Patents, trademarks and other rights	Straight line	10 - 15 years
Computer software	Straight line	2 - 8 years

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

The entity's intangible assets all have finite lives.

1.9 HERITAGE ASSETS

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

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

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

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

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

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

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.9 HERITAGE ASSETS (CONTINUED)

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

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

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

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

1.10 INVESTMENT IN JOINT VENTURES

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

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

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

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

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

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

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

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

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

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.10 INVESTMENT IN JOINT VENTURES (CONTINUED)

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

1.11 INSURANCE AND RISK MANAGEMENT

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

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

1.12 FINANCIAL INSTRUMENTS

Recognition

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

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

Derecognition of financial assets and financial liabilities.

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

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

Financial assets

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

1.12.1 LOANS AND RECEIVABLES

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

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

a) Trade and other receivables

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

b) Cash and cash equivalents

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

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.12 FINANCIAL INSTRUMENTS (CONTINUED)

c) Other loans

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

1.12.2 INVESTMENTS

Investments in financial instruments are classified and measured as follows:

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

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

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

Offset

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

Financial liabilities

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

Financial guarantee contracts

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

The entity assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets are impaired. A financial asset or group of financial assets are impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.12 FINANCIAL INSTRUMENTS (CONTINUED)

If there is objective evidence that an impairment loss has been incurred on a financial asset, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial assets original effective interest rate. The amount of the impairment shall be recognised in the statement of financial performance.

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

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

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

a) Trade and other receivables

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

1.13 STATUTORY RECEIVABLES

Identification

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

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

Recognition

The entity recognises statutory receivables as follows:

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

Initial measurement

The entity initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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

Derecognition

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

- the rights to the cash flows from the receivable are settled, expire or are waived
- the entity transfers to another party substantially all of the risks and rewards of ownership of the receivable or

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.13 STATUTORY RECEIVABLES (CONTINUED)

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

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

1.14 TAX

Current tax assets and liabilities

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

Deferred tax assets and liabilities

Deferred taxation is provided using the financial position liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or

substantively enacted at the reporting date. Deferred tax is recognised in the surplus or deficit except to the extent that it relates to a transaction that is recorded directly in net assets, or a business combination that is an acquisition. The effect on deferred tax of any changes in tax rates is recognised in the surplus or deficit, except to the extent that it relates to items previously charged or credited directly to net assets.

1.15 LEASES

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessor

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

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

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue from exchange transactions in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.16 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Raw materials are calculated using the first in, first out method, except in the case of Hazmat Protective Systems where it is calculated at weighted average. Write downs to net realisable value and inventory losses are expensed in the period in which the write down or losses occur.

Finished goods and work in progress are stated at actual cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Subsequently inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.17 FOREIGN CURRENCY CONVERSION

Transactions and balances

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

At the end of the reporting period, foreign currency monetary items are translated using the closing rate.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in surplus or deficit in the period in which they arise.

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

1.18 IMPAIRMENT OF ASSETS

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Identification

When the carrying amount of an asset exceeds its recoverable amount, it is impaired.

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

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.18 IMPAIRMENT OF ASSETS (CONTINUED)

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

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

Value in use

Value in use of an asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

The entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

A reversal of an impairment loss for an asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

At initial recognition, the entity designates an asset as non-cash-generating or as cash-generating. The designation is made on the basis of an entity's objective of using the asset.

The entity designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

1.19 NON-DISTRIBUTABLE RESERVES

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

a) Capital and building maintenance reserve

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

b) Computer upgrading reserve

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

c) Marketing promotion reserve

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

d) Internal insurance reserve

Self-insurance has been instituted where the cost-to-benefit relationship exceeds the risk and the incidence of losses is of a minor and infrequent nature. Self-insured risks are reviewed annually to ensure cover is adequate and an amount is held in an internal insurance fund to cover these risks.

e) Revaluation reserve

The revaluation surplus in equity is related to land and buildings and is transferred directly to accumulated surplus as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.19 NON-DISTRIBUTABLE RESERVES (CONTINUED)

f) Post-retirement medical reserve

The reserve was established to ring-fence funds to ensure adequate cover for Armscor's post-retirement medical obligation.

1.20 SHARE CAPITAL/ CONTRIBUTED CAPITAL

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

1.21 EMPLOYEE BENEFITS

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

a) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions
- the expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such

payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

b) Post-employment benefits: Defined contribution plans

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

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

c) Post-employment benefits - Defined benefit plan

The group provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the qualifying employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The cost of providing benefits under the defined benefits plan is determined using the projected unit credit actuarial valuation method.

Actuarial gains and losses during the valuation period, arising from experience adjustments and changes in actuarial assumptions, are recognised immediately in the statement of financial performance.

The entity discloses relevant information relating to the post-retirement medical obligation, in the notes to the financial statements (see note 20).

d) Other long-term employee benefits

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.21 EMPLOYEE BENEFITS (CONTINUED)

The entitlement to other long-term employee benefits is based on the service period provided by qualifying employee and the completion of certain minimum service period milestones. The expected costs of these benefits are accrued over the period of employment. Management carry out valuations of these obligations. The cost of providing benefits is determined using the projected unit credit valuation method.

The entity discloses relevant information relating to the other long-term employee benefits obligation in the notes to the financial statements (see note 20).

1.22 PROVISIONS AND CONTINGENCIES

Provisions are recognised when:

- the entity has a present obligation as a result of a past event
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The Group has the following provisions at year end:

a) Performance remuneration

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

also on Group department's performance as measured and expressed by their calculated performance score.

b) Provision for leave

Provision is calculated on leave days outstanding at end of year multiplied by remuneration rate based on the applicable remuneration package of each employee.

c) Contingencies

Contingent assets are disclosed when there is a possible asset, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Group's control. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements.

Contingent liabilities are disclosed when there is a possible obligation that arises from the past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Group's control, or it is not possible that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

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

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

1.23 COMMITMENTS

Items are classified as commitments when there is a contractual arrangement or an approval by management in a manner that raises a valid expectation that the Group will discharge its responsibilities thereby incurring future expenditure that will result in the outflow of cash.

Unrecognised contractual commitments are disclosed in note 44.

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.23 COMMITMENTS (CONTINUED)

Capital commitments relates to contractual arrangement or an approval by management in a manner that raises a valid expectation that the Group will discharge its responsibilities thereby incurring future capital expenditure that will result in the outflow of cash and an inflow of capital assets. Capital commitments are differentiated between commitments for property, plant and equipment and for intangible assets.

1.24 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue from exchange transactions refers to revenue that accrued to Armscor directly in return for services rendered/ goods sold, the value of which approximates the consideration received or receivable.

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

Revenue from exchange transactions are disclosed in note 25.

Revenue from exchange transaction is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

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

- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and

- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the entity's right to receive payment has been established.

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.25 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue from non-exchange transactions refers to transactions where Armscor received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.25 REVENUE FROM NON-EXCHANGE TRANSACTIONS (CONTINUED)

Apart from services in kind, which are not recognised, an inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue from non-exchange transactions are disclosed in note 27.

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity.

1.26 COST OF SALES

The related cost of providing goods and services recognised as revenue in the current period is included in cost of sales. Contract costs comprise:

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract on a systematic and rational basis; and
- such other costs as are specifically chargeable to the customer under the terms of the contract.

1.27 INVESTMENT INCOME

Investment income is recognised on a time-proportion basis using the effective interest method.

1.28 ACCOUNTING BY PRINCIPALS AND AGENT

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the entity is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether an entity is a principal or an agent requires the entity to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The entity assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.28 ACCOUNTING BY PRINCIPALS AND AGENT (CONTINUED)

Assessing which entity benefits from the transactions with third parties

When the entity in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the entity concludes that it is not the agent, then it is the principal in the transactions.

The entity is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the entity has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent. The entity applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the entity is an agent.

Recognition

The entity, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The entity, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The entity recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.29 COMPARATIVE FIGURES

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.30 FRUITLESS AND WASTEFUL EXPENDITURE

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

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred.

The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.31 IRREGULAR EXPENDITURE

Irregular expenditure is recorded in the notes to the financial statements when confirmed. The amount recorded is equal to the value of the irregular expenditure incurred, unless it is impractical to determine, in which case reasons therefore must be provided in the notes.

Irregular expenditure receivables are measured at the amount that is expected to be recovered and are de-recognised when settled or written-off as irrecoverable.

Irregular expenditure is removed from the balance of the irregular expenditure notes when it is either -

- (a) condoned by the relevant authority if no official was found to be liable in law;
- (b) recovered from an official liable in law;
- (c) written-off if it's irrecoverable from an official liable in law; or
- (d) written-off if it's not condoned and not recoverable.

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.32 SEGMENT INFORMATION

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Armcor's activities are reported in the following segments: Corporate, Dockyard and Research & Development (R&D).

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment.

1.33 BUDGET INFORMATION

The approved budget covers the fiscal period from 1 April 2020 to 31 March 2021, and is prepared on zero-based budgeting basis.

The budget for the economic entity includes all the entities approved budgets under its control, except for the Armcor Medical Benefit Fund.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts. Material deviations are explained in the relevant notes to the annual financial statements.

1.34 RELATED PARTIES

A related party is an individual as well as their close family members, and /or entities are related party if one part has the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Management is regarded as a related party and comprise of the Board of Directors and Executive Committee Members.

1.35 EVENTS AFTER REPORTING DATE

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

1.36 LIVING AND NON-LIVING RESOURCES

Living resources are those resources that undergo biological transformation.

Non-living resources are those resources, other than living resources, that occur naturally and have not been extracted.

Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a living resource.

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Recognition

Non-living resources, other than land, are not recognised as assets. Required information are disclosed in the notes to the annual financial statements.

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

Where the entity is required in terms of legislation or similar means to manage a living resource, but it does not meet the definition of an asset because control of the resource cannot be demonstrated, relevant information are disclosed in the notes to the annual financial statements.

1.37 CHANGE IN ACCOUNTING POLICIES

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Armcor shall change an accounting policy only if the change:

- is required by a standard of GRAP; or
- results in the financial statements providing reliable and more relevant information about the effects of the transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021 R'000	2020 R'000
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2. REPORTING FRAMEWORK

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations and directives issued by the International Accounting Standards Board (IASB).

In terms of these standards (GRAP), in the absence of a standard or pronouncement comprising the GRAP financial reporting frameworks that specifically applies to a transaction, other event or condition, management should apply judgement and may consider the following pronouncements, in descending order, in developing an accounting policy for such a transaction, event or condition.

- Standards of GRAP (Generally Recognised Accounting Practices) that have been issued, but are not yet effective;
- IPSAS (International Public Sector Accounting Standards); and
- IFRS (International Financial Reporting Standards).

2.1 STANDARDS AND INTERPRETATIONS EFFECTIVE AND ADOPTED IN THE CURRENT YEAR

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

Standard/ Interpretation:	Effective date: Years beginning on or after
GRAP 34: Separate Financial Statements	1 April 2020
GRAP 35: Consolidated Financial Statements	1 April 2020
GRAP 36: Investments in Associates and Joint Ventures	1 April 2020
GRAP 37: Joint Arrangements	1 April 2020
GRAP 38: Disclosure of Interests in other Entities	1 April 2020
GRAP 110: Living and Non-Living Resources	1 April 2020
IGRAP 20: Accounting for Adjustments to Revenue	1 April 2020

3. INVENTORIES

Raw materials, components	2 172	2 290
Work in progress	3 309	373
Finished goods	980	900
Consumables	7 528	6 485
	13 989	10 048

The amount of inventories written off during the year is R Nil thousand (2020: R199 thousand), whilst inventories utilised and expensed to general expenses during the year is R12 688 thousand (2020: R11 316 thousand).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

4. CURRENT TAX RECEIVABLE/PAYABLE

2021	Outstanding at beginning of year	Normal income tax for current year	Income tax paid during the year	Penalties and interest levied by SARS	Income tax receivable at the end of the year
Current tax receivable	5 019	345	(5 453)	26	(63)

2020	Outstanding at beginning of year	Normal income tax for current year	Income tax paid during the year	Prior year adjustment	Income tax payable at the end of the year
Current tax payable	6 013	5 809	(5 614)	(1 189)	5 019

5. RECEIVABLES FROM EXCHANGE TRANSACTIONS

Trade debtors	58 591	168 157
Prepayments	2 509	3 022
Deposits	1 559	4 174
Other debtors	2 122	3 373
Other related party debtors	1 178	308
Interest receivable	34 941	43 851
	100 900	222 885

Trade receivables past due but not impaired

Management has made an assessment and they concluded that there are no other indications of impairment.

The ageing of amounts past due but not impaired is as follows:

Current	20 287	32 549
31 - 60 days	6 361	8 468
61 - 90 days	5 855	9 694
91 - 120 days	8 490	27 954
121 days and older	17 598	89 492
	58 591	168 157

Trade and other receivables impaired

During the year, 31 March 2021 trade and other receivables of R20 272 thousand (2020: R69 337 thousand) were impaired and provided for.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

5. RECEIVABLES FROM EXCHANGE TRANSACTIONS (CONTINUED)

Reconciliation of provision for impairment of trade and other receivables

Opening balance	154 430	175 078
Provision for impairment	20 272	69 337
Amounts recovered during the year	(50 320)	(48 623)
Impairment losses reversed	(4 589)	(28 673)
Amounts written off as uncollectable	(5)	(12 689)
	119 788	154 430

An amount of R4 589 thousand (2020: R28 673 thousand) was reversed during the year as DPWI (Department of Public Works and Infrastructure) continues to make partial payment on long-outstanding invoices related to rental and DOD for travel management services.

6. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Other receivables from non-exchange transactions	1 409	-
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7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Cash on hand	81	225
Bank balances	148 855	216 705
Short-term deposits	663 720	648 000
	812 656	864 930

Included in cash and short-term deposits is an amount of R14 715 thousand (2020: R16 748 thousand) in respect of cash allocated to the insurance reserve and R65 353 thousand (2020: R47 241 thousand) in respect of Dockyard's post-retirement medical benefits as per note 20.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

Cash reserves are earmarked for upgrading of systems, capital expenditure approved but not yet contracted and other maintenance requirements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

8. INVESTMENT PROPERTY

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	50 730	-	50 730	47 270	-	47 270

Reconciliation of investment property - 2021

	Opening balance	Fair value adjustments	Total
Investment property	47 270	3 460	50 730

Reconciliation of investment property - 2020

	Opening balance	Transfers	Fair value adjustments	Total
Investment property	48 400	950	(2 080)	47 270

Transfer made in 2020 relate to the residential properties held by Alkantpan at Prieska, Northern Cape that were recognised as held for sale in 2019. The properties were moved to Investment property in 2020 as the offers to the potential buyers were not taken up and have lapsed.

The fair value was determined by an independent sworn appraiser using current market values on 31 March 2021. The appraiser holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The land was fair valued using the Direct Comparable Sales Method. Expenditure incurred relating to land amounted to R Nil (2020: R Nil). No revenue is generated from the investment property, however Armscor is actively looking at ways to develop the property.

Investment property is revalued independently on an annual basis.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

8. INVESTMENT PROPERTY (CONTINUED)

The following assumptions were applied by the valuator:

- that a geotechnical survey was done on the property, and that development is possible, that the consolidated property was promulgated and that all bulk contributions were paid, and that all bulk services are readily available,
- that the current and future land use is compliant with the “Spatial Planning and Land Use Management Act 16 of 2013” (SPLUMA); and
- that a land claims status report has not been lodged.

9. NON-LIVING RESOURCES

Entity as custodian

The nature of the entity’s custodial responsibility, including the legislation or similar means that establishes the custodial responsibility over the resources, are as follows: Armscor has a number of boreholes systems situated in some of the properties it owns.

Nature and types of non-living resources for which the entity is responsible

Borehole water: Boreholes existing at various divisions, including R&D and Armscor Corporate, properties. These boreholes are mainly used for purposes of irrigation in around the properties.

Liabilities and/or contingent liabilities that arise from the non-living resources

Boreholes water: There is no liability arising from this non-living resource.

10. LIVING RESOURCES

Living resources not recognised

The entity did not recognise the following living resources, due to the definition and/or recognition criteria not being met:

Wild game animals

The nature and type are as follows: In one of the Armscor’s property situated in the Alkantpan Test Range, a number of game (wild animals) are found in around the property. The game naturally existed in the greater area where the property is situated and they were never specifically acquired or obtained by other non-exchanged transaction means by Armscor.

In and around the property, the game can move freely to adjacent land/farms and is not fenced off by means of proper game fencing which will restrict movement of the game. The game in the property cannot be tagged, and have unrestricted access to the property and adjacent land/farms.

Armscor does not intervene in the physical condition of the game, or restrict the movement of the game and also does not have the ability to direct the use of the game in around the property area. Therefore, the entity does not control the game.

There were no disposal of the living resources during the year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

11. PROPERTY, PLANT AND EQUIPMENT

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	626 885	-	626 885	626 885	-	626 885
Buildings	1 064 801	(112 798)	952 003	1 059 102	(59 994)	999 108
Plant and machinery	187 884	(129 355)	58 529	161 732	(115 885)	45 847
Office equipment, furniture and computers	211 511	(179 724)	31 787	206 476	(166 420)	40 056
Vehicles and vessels	90 655	(69 497)	21 158	83 763	(64 363)	19 400
Capital assets under development	28	-	28	-	-	-
Total	2 181 764	(491 374)	1 690 390	2 137 958	(406 662)	1 731 296

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Assets written off	Depreciation	Total
Land	626 885	-	-	-	626 885
Buildings	999 109	5 702	-	(52 808)	952 003
Plant and machinery	45 847	27 739	(48)	(15 009)	58 529
Office equipment, furniture and computers	40 056	9 066	(6)	(17 329)	31 787
Vehicles and vessels	19 400	8 648	(72)	(6 818)	21 158
Capital assets under development	-	28	-	-	28
	1 731 297	51 183	(126)	(91 964)	1 690 390

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Revaluations	Assets written off	Transfers	Depreciation	Total
Land	715 613	-	-	(88 728)	-	-	-	626 885
Buildings	1 048 711	3 446	-	(217)	-	-	(52 831)	999 109
Plant and machinery	43 097	13 236	(608)	-	(9)	2 864	(12 733)	45 847
Office equipment, furniture and computers	44 006	14 027	(262)	-	(182)	-	(17 534)	40 055
Vehicles and vessels	21 706	4 382	-	-	-	-	(6 688)	19 400
Capital assets under development	1 655	1 209	-	-	-	(2 864)	-	-
	1 874 788	36 300	(870)	(88 945)	(191)	-	(89 786)	1 731 296

a) Depreciation rates

Buildings	Straight-line	3 - 70 years
Plant and machinery	Straight-line	5 - 15 years
Office equipment, furniture and computers	Straight-line	2 - 20 years
Vehicles and vessels	Straight-line	5 - 15 years

b) Transfers

Transfer made in 2020 relate to assets which were under development and are now recognised as plant and machinery.

Revaluations

In 2020, there was a revaluation performed on the Armscor Sportground property with an effective date of 31 March 2020 in anticipation of the development of the property. The result of the valuation indicated an impairment of R88 900 thousand, which is reflected in the statement of changes in net assets.

The valuation was performed using the direct comparable method.

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Contracted services	6 427	5 391
General expenses	1 618	3 588
	8 045	8 979

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Other matters

Included in the Group's value of plant, machinery and equipment are assets at contractors with a cost of R2 955 thousand (2020: R3 381 thousand) that are fully depreciated. These assets are no longer in use and are kept for strategic purposes.

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

Land:	R10 935 thousand (2020: R10 935 thousand)
Buildings:	R93 889 thousand (2020: R95 790 thousand)

Included in buildings are:

IMT building erected on leasehold premises with a net book value of R56 300 thousand (2020: R57 700 thousand). The leasehold premises comprises a portion in extent 1,4475 ha of Erf 3779 in Simon's Town which is leased from the Department of Public Works and Infrastructure.

The Paardefontein building erected on land owned by the State with a net book value of R3 400 thousand (2020: R3 500 thousand). The premises comprise of a portion in extent 51,3902 ha of portion 6 and 7 of the farm Paardefontein 282, registration division JR, City of Tshwane Metropolitan Municipality, which is registered in the name of the State.

Alkantpan water pipeline runs from Prieska to Copperton, which is approximately 70 kilometers. The pipeline, runs through farms of which the division has servitude on. The pipeline is owned and controlled by Alkantpan with a net book value of R33 100 thousand (2020: R35 000 thousand). It provides water to Alkantpan Test Range, Mine, Farms and Copperton Town.

Change in estimates:

The group reassesses the useful lives and residual values of items of property, plant and equipment at the end of each reporting period, in line with the accounting policy and GRAP 17 Property, plant and equipment. These assessments are based on historic analysis, benchmarking, and the latest available and reliable information.

Based on the latest available and reliable information there was a change in the estimated useful life of some assets, which resulted in a decrease in depreciation of R4 585 thousand (2020: R4 625 thousand decrease).

The group is unable to estimate the impact of the change in estimate for future periods due to impracticality as a result of the financial system limitations.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

12. INTANGIBLE ASSETS

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	16 476	(13 208)	3 268	16 491	(11 029)	5 462
Intangible assets under development	18 409	-	18 409	13 177	-	13 177
Total	34 885	(13 208)	21 677	29 668	(11 029)	18 639

Reconciliation of intangible assets - 2021

	Opening balance	Internally generated	Amortisation	Total
Computer software	5 462	-	(2 194)	3 268
Intangible assets under development	13 177	5 232	-	18 409
	18 639	5 232	(2 194)	21 677

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Internally generated	Transfers	Assets written off	Amortisation	Total
Computer software	8 680	1 126	-	(1 763)	(5)	(2 576)	5 462
Intangible assets under development	8 896	-	2 518	1 763	-	-	13 177
	17 576	1 126	2 518	-	(5)	(2 576)	18 639

Intangible assets in the process of being constructed or developed:

Cumulative expenditure recognised in the carrying value of Intangible assets

Ultrasonic Broken Railway Detection development	5 178	2 518
Computer software	54	1 126
	5 232	3 644

Amortisation rates

Computer software	Straight line 2 - 8 years
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Contractual commitments

Contractual commitments for acquisition of intangible assets amounts to R Nil (2020: R847 thousand).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

13. HERITAGE ASSETS

	2021			2020		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost/ Valuation	Accumulated impairment losses	Carrying value
Historical buildings	13 829	-	13 829	13 829	-	13 829

Reconciliation of heritage assets - 2021

	Opening balance	Total
Historical buildings	13 829	13 829

Reconciliation of heritage assets - 2020

	Opening balance	Total
Historical buildings	13 829	13 829

Fair value of heritage assets (measured at cost less accumulated impairment losses)

	Carrying amount 2020	Fair value 2020
Historical buildings	13 829	13 829

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

Land: R1 727 thousand (2020: R1 727 thousand)
Buildings: R42 629 thousand (2020: R46 055 thousand)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

14. INTERESTS IN OTHER ENTITIES

Investments in controlled entities

Name	Jurisdiction	Determination of ownership interest	% ownership interest 2021	% ownership interest 2020	Carrying amount 2021	Carrying amount 2020
Armcor Defence Institutes SOC Ltd	South Africa	Subsidiary	100,00 %	100,00 %	-	-
Oospark SOC Ltd	South Africa	Subsidiary	100,00 %	100,00 %	-	-
Sportrand SOC Ltd	South Africa	Subsidiary	100,00 %	100,00 %	-	-
Erasmusrand Eiendom SOC Ltd	South Africa	Subsidiary	100,00 %	100,00 %	-	-
					-	-

The carrying amounts of controlled entities are shown net of impairment losses.

All these entities are fully owned by Armcor for strategic business purposes but are dormant since 1 April 2013 and has not traded during the period.

Armcor has the power to govern the financial and operating policies of all these entities so as to obtain benefits from their activities

Investments in joint ventures

Name	Jurisdiction	Determination of ownership interest	% ownership interest 2021	% ownership interest 2020	Carrying amount 2021	Carrying amount 2020
African Aerospace and Defence	South Africa	Joint Venture	33,33 %	33,33 %	-	-

The carrying amounts of joint ventures are shown net of impairment losses.

As Armcor owns 33.33% joint control in the Joint Venture, Armcor has significant influence in the Joint Venture.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

14. INTERESTS IN OTHER ENTITIES (CONTINUED)

Interests in joint arrangements and associates

Material joint arrangements

Africa Aerospace and Defence

Name of the joint arrangement:	Africa Aerospace and Defence (AAD)
Nature of the entity's relationship with the joint arrangement:	Armcor entered into a joint control partnership/ arrangement on 30 August 1999 with the South African Aerospace, Maritime and Defence Industries Association (AMD) and the Commercial Aviation Association of Southern Africa (CAASA) whereby each party holds an equal interest of 33,33% in the partnership. The partnership's main business is the hosting of the Africa Aerospace and Defence exhibition which takes place bi-annually,
Domicile and legal form of the joint arrangement or associate:	South Africa
Proportion of ownership interest or participating share held by the entity:	33.33%
Proportion of voting rights held:	33,33%
The investment in the joint venture or associate is measured using:	Equity Method

Summarised financial information for the joint venture

Current assets	5 947	7 776
Non-current assets	22	12
Current liabilities - non-interest bearing	7 005	8 239
Income (including investment income)	32	129
Expenditure	(584)	(595)
Surplus or (deficit)	(552)	(466)

The reporting period of Africa Aerospace and Defence (AAD) is from 1 March to 28 February annually. There are no significant unadjusted transactions or events occurring between 28 February and 31 March.

The total unrecognised share of losses in AAD for the reporting period amounts to R552 thousand (2020: R466 thousand).

The total cumulative unrecognised share of losses in AAD amounts to R376 thousand (2020: R375 thousand).

The AAD exhibition did not take place in 2020 because of COVID-19 lockdown restriction.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

15. FINANCIAL INSTRUMENTS

Financial risk management

Introduction

The Group's financial instruments consist of cash and cash equivalents, accounts receivable, investments and accounts payable, which arise directly from its operations.

The principle market risks to which the Group is exposed through financial instruments are:

- Foreign exchange transactions
- Interest rates
- Credit risk
- Liquidity risk
- Investment risk

	2021		2020	
	Fair Value R '000	Carrying Value R '000	Fair Value R '000	Carrying Value R '000
Assets				
Loans and receivables	913 556	913 556	1 087 815	1 087 815
Trade and other receivables	100 900	100 900	222 885	222 885
Cash and cash equivalents	732 588	732 588	800 941	800 941
Cash allocated to insurance reserve	14 715	14 715	16 748	16 748
Cash allocated to Dockyard post-retirement benefit	65 353	65 353	47 241	47 241
At fair value	883 226	868 648	556 973	570 703
Government and other bonds	61 760	63 083	45 040	49 995
Shares - listed	67 690	59 729	47 794	62 174
Deposits at banking institutions	721 535	721 012	434 110	432 561
International investments	32 241	24 824	30 029	25 973
	1 796 782	1 782 204	1 644 788	1 658 518
Liabilities				
Trade and other payables	(168 346)	(168 346)	(155 790)	(155 790)
	(168 346)	(168 346)	(155 790)	(155 790)
	1 628 436	1 613 858	1 488 998	1 502 728

Of the fair value presented above R185 060 thousand (2020: R158 377 thousand) relates to the Medical Benefit Fund.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

15. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate management

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

Credit risk management

The entity only deposits cash surpluses with major banks of high quality credit standing.

Trade receivables comprise a widespread customer base. The granting of credit is controlled by well-established criteria, which are reviewed and updated on an ongoing basis.

At year end, the entity did not consider there to be any significant concentration of credit risk which has not been insured or adequately provided for. With respect to credit risk arising from the other financial assets of the entity, the entity's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The entity's objective is to maintain a balance between continuity of funding and flexibility through the use of call accounts.

The Group maintains a sufficient level of liquidity to be able to meet all its obligations. The Group has no overdraft facility but has other facilities which include guarantees and letters of credit.

Capital management

Capital includes equity attributable to the equity holders. The primary objective of the entity's capital management is to ensure that it maintains strong credit ratings and healthy capital ratios in order to support its business. The entity manages its capital structure and makes adjustments to it in the light of changes in economic conditions. No changes were made in the objective, policies or processes for the year ended 31 March 2021. The entity does not have external imposed capital requirements. The entity 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.

Trade and other payables	(168 346)	(155 790)
Cash and cash equivalents	812 656	864 930
	644 310	709 140

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

15. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

The entity's exposure to the risk in market interest rates relates primarily to interest received on call accounts and fixed deposits.

Interest rate risk (sensitivity analysis)

The following table demonstrates the sensitivity to a change in interest rates with all other variables held constant.

	Increase/decrease in basis points	Increase/decrease in surplus for the year and equity
2021	+/- 50 +/- 25	+/- 8 million +/- 4 million
2020	+/- 50 +/- 25	+/- 6,4 million +/- 3,2 million

Investment risk

Investments in equities are valued at fair value and therefore susceptible to market fluctuations.

Investments are managed with the aim of maximising the Group's returns while limiting risk to acceptable levels.

Continuous monitoring takes place to ensure that appropriate assets are held where the liabilities are dependent upon the performance of the investment portfolio and that a suitable match of assets exists for all liabilities.

Foreign currency risk

Foreign currency risk is the risk that the value of an instrument will fluctuate in South African Rands due to changes in foreign exchange rates.

The entity is exposed to both foreign currency risks on investments that are denominated in a currency other than the respective functional currency of the entity and transactional currency exposures. The currency giving rise to the risk is primarily US dollars (USD).

These investments are monitored to ensure that the exposure to foreign currency risk is maintained within internal diversification guidelines.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

16. PAYABLES FROM EXCHANGE TRANSACTIONS

	2021 R'000	2020 R'000
Trade payables	16 157	19 248
Payments received in advanced - contract in process	53 953	39 085
Other payables	7 322	5 893
Accrued expenses	39 798	38 734
Deposits received	44	18
	117 274	102 978

Aging of trade payables

Current	10 128	9 780
31 - 60 days	(1 352)	4 400
61 days and older	7 381	5 068
	16 157	19 248

17. PAYABLES FROM NON-EXCHANGE TRANSACTIONS

Taxes payable	25 807	26 586
Other payables from non-exchange transactions	980	1 306
Prepayments received for projects	19 367	18 684
Defence stock sales prepayment	4 918	6 236
	51 072	52 812

18. DEFERRED INCOME

Movement during the year

Balance at the beginning of the year - grants	68 133	71 172
Balance at the beginning of the year - other deferred income	26 900	8 552
Additions during the year - grants	22 732	26 690
Additions during the year - other deferred income	112 047	95 881
Utilised and other movements during the year - grants	(32 069)	(29 729)
Utilised and other movements during the year - other deferred income	(113 075)	(77 533)
	84 668	95 033
Non-current liabilities	19 851	63 007
Current liabilities	64 818	32 025
	84 669	95 032

Unspent conditional grants and receipts relates to cash, stock and assets received in relation to the Department of Defence projects, of which the recognition of the income needs to be aligned with the incurring of the expenditure, or the fulfillment of the conditions of receipt.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

19. PROVISIONS

Reconciliation of provisions - 2021

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for leave	63 271	47 767	(51 819)	(1 907)	57 313
Provision for performance bonus	70 567	34 539	(69 096)	(1 471)	34 539
	133 838	82 306	(120 915)	(3 378)	91 852

Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for leave	63 841	43 354	(37 966)	(5 958)	63 271
Provision for performance bonus	70 572	70 567	(68 115)	(2 456)	70 568
	134 413	113 921	(106 081)	(8 414)	133 839

Performance remuneration is discretionary and for the 2020/21 financial year will be paid upon the completion of the performance evaluation process, subject to approval by the Board of directors.

20. EMPLOYEE BENEFIT OBLIGATIONS

20.1 DEFINED CONTRIBUTION PENSION FUND AND PROVIDENT FUND

The entity contributes towards and operates the Armscor Defined Contribution Pension Fund and Provident Fund, which offer benefits based on the contributions by and made on behalf of every member as well as investment yields. At the time of establishment of the Armscor Defined Contribution Pension Fund, Armscor guaranteed pensioners that were transferred from the previous pension fund to the current pension fund to receive a pension at least equal to the pension received in terms of the previous fund. Armscor's liability in this regard for the remaining 6 members is R Nil (2020: R Nil) as the pensioners account in the pension fund is sufficiently funded.

The amount of contributions to the above scheme

76 010	75 945
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20.1.1 GOVERNMENT EMPLOYEES PENSION FUND - DOCKYARD

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

The amount of contributions to the above scheme

16 802	17 340
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

20. EMPLOYEE BENEFIT OBLIGATIONS (CONTINUED)

20.2 POST-RETIREMENT MEDICAL BENEFITS

The GRAP 25 valuation of the Group's post employment benefits was carried out at 31 March 2021.

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

	2021	2020	2019	2018	2017
Present value of funded obligations	250 894	218 976	226 164	237 390	218 601
Net obligation	250 894	218 976	226 164	237 390	218 601
Net liability in statement of financial position	250 894	218 976	226 164	237 390	218 601

The liability amount reflect the Group post-retirement medical benefit.

20.2.1 POST RETIREMENT MEDICAL BENEFITS (EXCLUDING ARMSCOR & DOCKYARD PERSONNEL TRANSFERRED FROM THE SA NAVY)

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

Based on the latest projection performed at 31 March 2021 the present value of the obligation is R100 781 thousand (2020: R90 855 thousand). Based on the latest projections, the value of the obligation for 31 March 2022 is R108 784 thousand. Based on the projection performed at 31 March 2021 financial assets held aside specifically for this purpose are sufficient to cover the liability. The financial assets held aside are R185 104 thousand (2020: R158 413 thousand).

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

Opening balance	90 855	91 061
Current service cost	1 076	1 305
Interest cost	11 482	9 034
Expected employer benefit payments	(4 448)	(4 060)
Actuarial (gain)/loss	1 816	(6 485)
Expected closing balance	100 781	90 855

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

20. EMPLOYEE BENEFIT OBLIGATIONS (CONTINUED)

Reconciliation of the net liability in the statement of financial position and amounts recognised in profit/loss

Opening balance	90 855	91 061
Expense recognised in employee remuneration costs	14 374	3 854
Employer benefit payments	(4 448)	(4 060)
	100 781	90 855

Net benefit expense (recognised in employee remuneration costs)

Current service cost	1 076	1 305
Interest cost	11 482	9 034
Actuarial (gain)/loss recognised	1 816	(6 485)
	14 374	3 854

The main actuarial assumptions are:

Discount rate	12,6%	12,8%
Health care cost inflation	9,9%	9,3%
CPI inflation	7,9%	7,3%
Average retirement age	63	63

The value of the liability is particularly sensitive to the assumed rate of health care cost inflation. A one percentage change in the assumed rate would have the following effects for the Group benefit obligation and the aggregate service cost and interest cost:

20.2.2 POST RETIREMENT MEDICAL BENEFITS FOR ARMSCOR & DOCKYARD PERSONNEL TRANSFERRED FROM THE SA NAVY

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

The GRAP 25 valuation of the Dockyard's post-employment benefits was carried out on 31 March 2021. This actuarial valuation of the employer's liability as at 31 March 2021 arises as a result of post-employment healthcare benefits enjoyed by former SA Naval Dockyard employees. Based on the projection performed at 31 March 2021 the accrued liability exceeds the cash held aside specifically for this purpose. The cash held aside is R65 353 thousand (2020: R47 241 thousand).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

20. EMPLOYEE BENEFIT OBLIGATIONS (CONTINUED)

The cash held aside specifically for this purpose at 31 March 2021 is not sufficient to cover the accrued liability and is summarised below:

Present value of the unfunded obligation	150 113	128 121
Net obligation	150 113	128 121
Less: available funds	(65 353)	(47 241)
Net liability as at 31 March 2021	84 760	80 880

A projection of results of the valuation as at 31 March 2021 to 31 March 2022 is set out below:

Accrued liability as at 31 March 2021	150 113	128 121
Interest cost	19 793	16 674
Service cost	1 220	1 214
Expected employer benefit payments	(7 249)	(6 032)
Projected accrued liability as at 31 March 2022	163 877	139 977

Actuarial assumptions for Dockyard Reconciliation of present value of the unfunded obligation

Opening balance	128 121	135 103
Current service cost	1 214	1 586
Interest cost	16 850	13 974
Actuarial loss	7 287	(17 887)
Expected employer benefit payments	(3 359)	(4 655)
Closing balance	150 113	128 121

Reconciliation of the present value of the unfunded obligation with the liability recognised in the Statement of financial position

Present value of unfunded obligation	150 113	128 121
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Net benefit expense (recognised in employee remuneration)

Current service cost	1 214	1 586
Interest cost	16 850	13 974
Actuarial gain/(loss)	7 287	(17 887)
	25 351	(2 327)

The main actuarial assumptions are:

Discount rate	13,4%	13,2%
Health care cost inflation	10,6%	9,7%
CPI inflation	8,6%	7,7%
Average retirement age	63	63

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

20. EMPLOYEE BENEFIT OBLIGATIONS (CONTINUED)

The value of the liability is particularly sensitive to the assumed rate of healthcare cost inflation. A one percentage change in the assumed rate would have the following effects for the Group:

	-1%	Base	+1%
Sensitivity on defined benefit obligation			
Healthcare inflation	138 937	150 113	155 478
Service cost plus interest cost (next financial year)	19 294	21 013	22 009
Sensitivity results from previous valuation			
Healthcare inflation	113 888	128 121	145 176
Service cost plus interest cost (next financial year)	15 794	17 888	20 408

Summary of defined medical benefit expense for all funds

Defined medical benefit expense (post-retirement) included in employee cost:

Current service cost	2 290	2 891
Interest cost	28 332	23 008
Actuarial cost	9 103	(24 372)
	39 725	1 527

20.3 OTHER LONG-TERM EMPLOYEE BENEFITS

20.3.1 LONG-TERM SERVICE CASH AWARD

The Group expresses its appreciation for employees' loyal and faithful uninterrupted long service with the Group in accordance with the following predetermined rules, as set out below. The Group's net obligation in this regard is the amount of future benefit that employees have earned in return for their services in current and prior periods. There are no plan assets for this liability.

Years of Service	Cash benefit
5 years' of service	R 900
10 years' of service	R1 800
15 years' of service	R2 700
20 years' of service	R3 600
25 years' of service	R4 500
30 years' of service	R5 400
35 to 45 years' of service	R6 000

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

20. EMPLOYEE BENEFIT OBLIGATIONS (CONTINUED)

The obligation has been calculated using the best estimates available to management at the time of preparing the financial statements.

At the reporting date, the Group had 1455 (2020: 1568) employees entitled to the benefit respectively.

The total outstanding liability amounts to R2 482 thousand per management's best estimate performed during March 2021 (2020: R2 516 thousand).

Reconciliation of the present value of the obligations

Opening balance	2 516	2 553
Current service cost	77	107
Interest cost	317	322
Expected employer benefit payments	(428)	(466)
Expected closing balance	2 482	2 516

Reconciliation of the net liability in the statement of financial position and amounts recognised in profit/loss

Opening balance	2 516	2 553
Expense recognised in employee related costs	394	429
Employer benefit payments	(428)	(466)
	2 482	2 516

Net benefit expense (recognised in employee related costs)

Current service cost	77	107
Interest cost	317	322
	394	429

The main assumptions are:

Discount rate	12,6%	12,6%
Staff turnover rate	7%	7%
Average years for future payments	25	25

20.3.2 LONG-TERM SERVICE LEAVE

The Group provides employees with five (5) additional leave days per year after having completed ten (10) consecutive years of service. Employees annual leave entitlement is increased with these days whereby an employee qualifies for five (5) additional working days leave per year. The Group's net obligation in this regard is the amount of future benefit that employees have earned in return for their services in current and prior periods. There are no plan assets for this liability.

The obligation has been calculated using the best estimates available to management at the time of preparing the financial statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

20. EMPLOYEE BENEFIT OBLIGATIONS (CONTINUED)

At the reporting date, the Group had 1437 (2020: 1396) employees entitled to the benefit respectively.

The total outstanding liability amounts to R50 798 thousand per management best estimate performed during March 2021 (2020: R51 697 thousand).

Reconciliation of the present value of the obligations

Opening balance	51 697	52 547
Current service cost	4 777	4 049
Interest cost	6 514	6 621
Expected employer benefit payments	(12 190)	(11 520)
Expected closing balance	50 798	51 697

Reconciliation of the net liability in the statement of financial position and amounts recognised in profit/loss

Opening balance	51 697	52 547
Expense recognised in employee related costs	11 291	10 670
Employer benefit payments	(12 190)	(11 520)
	50 798	51 697

Net benefit expense (recognised in employee related costs)

Current service cost	4 777	4 049
Interest cost	6 514	6 621
	11 291	10 670

The main assumptions are:

Discount rate	12,6%	12.6%
Average annual staff turnover rate	7%	7%
Future salary inflation	4,6%	4,6%
Average remaining years of service	20	20

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

20. EMPLOYEE BENEFIT OBLIGATIONS (CONTINUED)

The value of the liability is particularly sensitive to the assumed discount rate, average annual staff turnover rate and the future salary inflation rate. Quantitative sensitivity analysis for significant assumptions on the obligation as at 31 March 2021 results when assumptions are increased or decreased are as shown below:

Sensitivity on other long-term employee benefit obligation	-1%	Base	+1%
Discount rate	55 176	50 797	47 062
Future salary inflation	45 239	50 797	57 143
Service cost plus interest cost (next financial year)	12 250	12 335	12 407
 Sensitivity results from previous valuation	 -1%	 Base	 +1%
Discount rate	56 153	51 697	47 895
Future salary inflation	46 139	51 697	58 043
Service cost plus interest cost (next financial year)	11 213	11 291	11 357

21. DEFERRED TAX

Deferred tax liability

Deferred taxation	(7 353)	(2 154)
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The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

Reconciliation of deferred tax liability

At beginning of year	(2 154)	(6 036)
Current year movement on fair value adjustment	(5 199)	3 882
	(7 353)	(2 154)

22. SHARE CAPITAL/CONTRIBUTED CAPITAL

Authorised

1 000 000 000 Ordinary shares of R1 each.	1 000 000	1 000 000
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Issued and fully paid

Ordinary	75 000	75 000
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Share Capital is under the control of the Executive Authority.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

23. REVALUATION RESERVE

The revaluation reserves relates to the revaluation surplus relating to the revalued land and buildings (refer to note 11 and 8).

Opening balance	1 702 618	1 819 775
Release to accumulated surplus	(27 981)	(27 898)
Revaluation (loss)/gain for the year	-	(89 259)
	1 674 637	1 702 618

24. OTHER NON-DISTRIBUTABLE RESERVES

Property and Building Maintenance Reserve	250 000	250 000
Marketing Promotion Reserve	6 904	6 904
Computer Services Upgrade Reserve	150 000	150 000
Internal Insurance Reserve	14 715	16 748
Post-retirement Medical Reserve	17 916	-
	439 535	423 652

25. REVENUE

Sale of goods	31 240	40 689
Rendering of services	270 572	348 895
Deferred income recognised	37 545	29 716
Rental income	71 421	68 046
Other income	13 087	19 918
Interest received (Refer to note 26)	89 169	104 678
Dividends received (Refer to note 26)	2 004	2 077
Government grants (Refer to note 27)	1 075 780	1 146 046
	1 590 818	1 760 065

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

25. REVENUE (CONTINUED)

The amount included in revenue arising from exchanges of goods or services are as follows:

	2021 R'000	2020 R'000
Sale of goods	31 240	40 689
Rendering of services	270 572	348 895
Deferred income recognised	37 545	29 716
Rental income	71 421	68 046
Other income	13 087	19 918
Interest received	89 169	104 678
Dividends received	2 004	2 077
	515 038	614 019

The amount included in revenue arising from non-exchange transactions is as follows:

Transfer revenue

Government grants	1 075 779	1 146 046
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Revenue for the group comprise of a government grant, sale of own manufactured goods, revenue from facilitating sale of defence equipment for government and entities, services rendered to the DOD utilising secondary grants received, income from leasing of own properties and interest income from investment of cash on hand.

26. INVESTMENT REVENUE

Dividend revenue

Dividend received	2 004	2 077
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Interest revenue

Interest received - Investments	3 230	1 932
Interest received - financial institutions	85 983	100 796
Interest charged on trade and other receivables	(68)	68
Interest received - other	24	1 881
	89 169	104 677
	91 173	106 754

Dividend income is recognised on the date the Armscor Medical Benefit Fund's right to receive payment is established.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

27. GOVERNMENT GRANTS AND DONATIONS

Operating grants

Government grant - Department of Defence (DOD)

1 075 779 1 146 046

Conditional and Unconditional - Government grant

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

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

Nature and type of services in-kind are as follows:

In terms of the Dockyard transfer agreement for the Naval Dockyard in Simon's Town, the Dockyard division, in its role of servicing the SA Navy, occupies a building owned by the SA Navy at no cost and has access to the use of the SA Navy's docking facilities at no charge.

28. EMPLOYEE RELATED COSTS

Salaries and wages	810 951	818 162
Bonus	33 538	68 021
Employer contributions	152 931	139 701
Leave pay provision charge	46 459	38 474
Other short term employee related costs	12 119	19 377
13th cheques	60 263	62 394
Less: Employee costs included in other expenses	(57 950)	(64 061)
Long-term benefits - incentive scheme	(934)	-
Post-retirement benefits	63 291	30 323
	1 120 668	1 112 391

Remuneration of non-executive directors

Annual Remuneration

2 706 6 168

Refer to note 39 for remuneration of non-executive directors.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

29. LEASE RENTALS ON OPERATING LEASES

Premises

Contractual amounts	593	508
Contingent amounts	55	-

Motor vehicles

Contractual amounts	1	51
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Equipment

Contractual amounts	1 217	1 417
Contingent amounts	225	186
	2 091	2 162

30. IMPAIRMENT LOSSES RECOGNISED

Debt impairment	191	(75)
Bad debts reversed on receivables from exchange	(29 223)	(8 668)
	(29 032)	(8 743)

31. COST OF SALES

Sale of goods

Cost of goods sold	7 822	9 885
Cost of rendering of services	106 538	144 513
	114 360	154 398

32. GENERAL EXPENSES

Advertising	1 945	4 169
Auditor's remuneration (Refer to note 34)	6 293	6 111
Consulting and professional fees	47 331	44 296
Fines and penalties	26	690
Other operating expenses	49 804	52 166
Computer services	11 029	4 921
Postage and communication	3 391	4 048
Printing and stationery	6 201	9 258
Repairs and maintenance	17 364	13 836
Subsistence and travel	6 974	25 880
Electricity	36 841	38 583
Movement in insurance reserve	2 040	3 254
	189 239	207 212

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

33. FAIR VALUE ADJUSTMENTS

Investment property	3 460	(1 460)
Other financial assets		
• Other financial assets	28 327	(33 863)
	31 787	(35 323)

34. AUDITOR'S REMUNERATION

Fees	6 236	6 055
Expenses	57	56
	6 293	6 111

35. TAXATION

Major components of the tax expense

Current

Local income tax - current period	345	5 810
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Deferred

Current year movement on fair value adjustment	5 199	(3 882)
	5 544	1 928

Reconciliation of the tax expense

Reconciliation between accounting surplus and tax expense:

Accounting surplus before income tax	32 048	(13 918)
Tax at the applicable tax rate of 45% (2020: 45%)	14 422	(6 263)

Tax effect of adjustments on taxable income

Non-taxable income	(14 189)	(11 140)
Non-deductible expenditure	113	17 968
Net capital gain	-	5 245
	346	5 810

Reconciliation of income tax rate:

Current year's charge as a percentage of income before taxation	17 %	(42)%
Non-taxable income	44 %	(80)%
Capital gains tax	(16)%	38 %
Non-deductible expenditure	- %	129 %
	45 %	45 %

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

36. CASH GENERATED FROM OPERATIONS

Surplus/(deficit) before taxation	129 811	181 473
Adjustments for:		
Depreciation and amortisation	94 159	92 364
Loss/(profit) on disposal of assets	103	(1 020)
Assets written off	21	298
(Gain)/loss on foreign exchange transactions	(197)	(2 310)
Fair value adjustments	(31 787)	35 628
Dividends received	(2 004)	(2 077)
Bad debts recovered	(29 032)	(8 743)
Movements in retirement benefit assets and liabilities	30 984	(8 075)
Movements in provisions	(41 987)	(574)
Proceeds on disposal of investment	(1 305)	(17 099)
Normal taxation	(5 427)	(6 804)
Share of profits in joint venture	-	(2 456)
Changes in working capital:		
Inventories	(3 941)	(1 486)
Receivables from exchange transactions	151 214	44 085
Receivables from non-exchange transactions	(1 409)	-
Payables from exchange transactions	14 297	(7 419)
VAT payable	7 361	(34 175)
Payables from non-exchange transactions	(1 740)	(20 728)
Deferred income	(10 363)	15 309
	298 758	256 191

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

37. OPERATING LEASE COMMITMENTS - GROUP AS LESSEE AND LESSOR

Lessee disclosure

The Group has entered into operational leases on certain motor vehicles and items of machinery and equipment. Certain of the leases have expired and are running on a month to month basis. There are no restrictions placed upon the lessee by entering into these leases. The lease charges paid under operating leases for the year is R2 092 thousand (2020: R2 162 thousand) of which R460 thousand (2020: R322 thousand) relates to contingent rentals on operating leases.

Additionally, interdivisional lease charges, amounting to R20 712 thousand (2020: R19 537 thousand), for occupation of the floor space is charged for the administration of the building for maintenance of the Armscor Head Office.

Future minimum rentals payable under non-cancellable operating leases as at 31 March 2021 are as follows:

Within one year	397	761
After one year but not more than five years	64	257
	461	1 018

Lessor disclosure

a) The Group entered into operating lease relating to Armscor Head Office and R&D facilities, with regards to office space and parking. The leases have expired and are on a month to month basis. There is a three month cancellation notice period in terms of the contract. The Group is in a process of entering into a new lease agreement with the existing tenant.

b) The Group entered into a separate operating lease with the DPWI for the Public Investment Corporation (PIC), relating to Armscor Head Office, with regards to office space and parking. The lease expired in February 2020.

c) The Group entered into operating lease relating to R&D facilities, with regards to office space and parking. The lease commenced on 1 June 2019 for a period of 119 months. There is a fixed escalation of 8% per year on the minimum lease installment. The minimal lease installments are payable monthly in advance.

Future minimum rentals receivable under non-cancellable operating leases as at 31 March 2021 are as follows:

Within one year	61 536	58 267
After one year but not more than five years	784	726
More than five years	426	608
	62 746	59 601

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

38. CONTINGENCIES

Guarantees

Bank guarantees have been issued for Armscor in favour of a local contractor amounting to R166 thousand (2020: R166 thousand) and to a foreign contractor amounting to R Nil thousand (USD Nil thousand [2020: R Nil thousand (USD Nil thousand)]) for an advance payment received.

Bank guarantees have been issued on behalf of Armscor in favour of the South African Revenue Services: Customs and Excise and other creditors amounting to R7 676 thousand (2020: R7 876 thousand) with regard to local guarantees.

Alkantpan

At 31 March 2021 the Group had a contingent liability in respect of rehabilitation of the test range at Alkantpan.

In terms of the National Environmental Management Act (Act No. 107 of 1998), section 28 (1) which came into effect on 29 January 1999, Alkantpan must take reasonable steps to avoid, stop or minimize degradation of the environment. Certain options were investigated and, as no intention currently exist to cease activities at Alkantpan because Alkantpan is regarded as a strategic facility which is partially funded by the Department of Defence, Alkantpan has elected to manage the range in compliance with the Act and to continue with its day to day clearing actions.

A steering committee was formed between Alkantpan and the Department of Tourism, Environment and Conservation of which the first meeting took place on 5 September 2006. It was confirmed at this meeting that the committee is to guide and advise Alkantpan on the environmental way forward and to ensure legislative compliance to the Act.

Meetings are scheduled to monitor the process and provide feedback on the progress. In terms of the last meeting held, no new issues or risks were reported at the meeting held and it was reported that the current measures in place are sufficient to manage the range in compliance with the Act.

The cost incurred for rehabilitating the site during the period under review was an amount of R Nil (2020: R496 thousand). The estimated costs to fully rehabilitate the test range cannot be reliably estimated at this stage and further discussions are still underway.

Voluntary Severance Packages

On 19 March 2021, the Armscor Board of Directors approved the voluntary severance packages (VSP) to all employees. The VSP process will be finalised in August 2021. Currently the exact amount of the possible obligation for employees that take up the VSP offer is uncertain and the amount cannot be reliably estimated.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

39. RELATED PARTIES

The Armaments Corporation of South Africa SOC Ltd ("ARMSCOR") is a statutory body, wholly owned by the State, established in terms of the Armaments Development and Production Act (Act No. 57 of 1968), and continues its existence through the Armaments Corporation of South Africa Ltd Act (Act No. 51 of 2003).

Armcor operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the constitutional independence of all three spheres of government in South Africa, only parties within the national sphere of government will be considered to be related parties.

To execute its mandate, Armcor received a transfer payment of R1 198 423 thousand (2020: R1 276 479 thousand) from the State through the Department of Defence (DOD) as well as secondary transfer payments (in terms of separated Memorandum of Agreements) for services rendered to the DOD.

Armcor does not disclose the value of transactions with other public sector entities as the transactions were concluded within normal operating procedures and on terms that are no more or no less favourable than the terms it would use to conclude transactions with another entity or person.

2021	2020
R	R

Dormant subsidiaries (At 100% Holdings)

Armcor Defence Institutes SOC Ltd (loan to)	4 000	4 000
Erasmusrand Eiendom SOC Ltd (loan from)	1	1
Oospark SOC Ltd (loan from)	1	1
Sportrand SOC Ltd (loan from)	1	1

Armcor is a 33,33% partner in Africa Aerospace and Defence, refer to note 14 for disclosure.

	Amounts owed by related parties		Amounts owed to related parties	
	2021 R '000	2020 R '000	2021 R '000	2020 R '000
Department of Defence	60 053	133 928	1 745	9 033
Major national public entities (Schedule 2 and 3 public entities)	7 579	44 237	36 633	12 126
National Government	71 382	114 769	-	1 031

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at normal market prices. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. For the year ended 31 March 2021, the Group has a provision for doubtful debts of R111 290 thousand (2020: R145 639 thousand) relating to amounts owed by related parties.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

39. RELATED PARTIES (CONTINUED)

Reconciliation of transfer payments received from the DOD

• Primary transfer payment recognised in comprehensive income	1 116 415	1 175 762
• Secondary transfer payment received	99 911	103 756
• Funds received for Dockyard transferred to deferred income due to outstanding conditions	22 732	26 690
• Deferred Income recognised as transfer payment	(40 635)	(29 729)
Total transfer payments allocated by the Department of Defence	1 198 423	1 276 479

Assets and stock transferred to the Dockyard with an effective date of 1 April 2010 have been fair valued at R46 355 thousand (2020: R58 717 thousand) and accounted for as deferred income, with the purpose of recognising it in line with the utilisation of the assets and stock.

Retirement benefits

Details of the Armscor retirement benefits are disclosed in note 20.

Other long-term employee benefits

Details of the Armscor other long-term employees benefits are disclosed in note 20.

Directors

Directors' interests in related parties: No interests in related parties have been declared by Armscor's Directors. Two of Armscor's Executive Directors and two Armscor Executive Committee Members are ex-officio directors of the Armscor Defence Institutes' Board of Directors at 31 March 2021. One Armscor Executive Director is also ex-officio director on the Boards of Erasmusrand Eiendom SOC Ltd, Sportrand SOC Ltd and Oospark SOC Ltd. These companies are dormant.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

39. RELATED PARTIES (CONTINUED)

Key management personnel

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. All individuals who are members of the Armscor Executive Committee and the Board of Directors are regarded as key management.

Information on the remuneration of all key management personnel is disclosed below:

Remuneration of key management personnel Executive Directors

Name	Note	2021				Total
		Basic salary	Other benefits	Allowances	Retirement and other contributions	
Mr JG Grobler		2 425	649	132	394	3 600
Adv SP Mbada		3 124	840	207	514	4 685
		5 549	1 489	339	908	8 285

Name	Note	2020				Total
		Basic salary	Other benefits	Allowances	Retirement and other contributions	
Mr JG Grobler		2 398	617	126	384	3 525
Mr KPE Wakeford	5	274	1 188	13	32	1 507
Adv SP Mbada	6	2 333	528	492	411	3 764
		5 005	2 333	631	827	8 796

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

39. RELATED PARTIES (CONTINUED)

Non-Executive Directors

2021	Note	Fees and committee remuneration	Total
Name			
Dr MB Khanyile	11	375	375
Mr NM Tyibilika	11	97	97
Mr RM Vokwana	11	137	137
Ms T Mhlari	11	127	127
Amb JT Ndhlovu	11	226	226
Mr MS Motimele	10	794	794
Dr PD Dexter	10	284	284
Dr RC Lubisi	12	118	118
Ms R Matenche	12	133	133
Maj Gen. (Ret) LC Pepani	12	102	102
Ms F Skweyiya-Gushu	12	112	112
Mr TM Sukazi	12	97	97
Ms PN Mashinini	12	104	104
		2 706	2 706

2020	Note	Fees and committee remuneration	Total
Name			
Adv VLA de la Hunt		470	470
Dr MB Khanyile		1 069	1 069
Amb T Skweyiya	7	885	885
Mr NM Tyibilika		649	649
Mr RM Vokwana		528	528
Ms T Mhlari		618	618
Amb JT Ndhlovu	9	588	588
Ms CE Simpson	8	471	471
Mr MS Motimele	9	890	890
		6 168	6 168

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

39. RELATED PARTIES (CONTINUED)

EXECUTIVE COMMITTEE MEMBERS

Name	Note	2021				
		Basic salary	Other benefits	Allowances	Retirement and other contributions	Total
Ms JL Mzili		2 112	459	198	318	3 087
Prof N Mkaza		2 445	664	18	372	3 499
JS Mkwanaazi	13	2 916	1 363	89	451	4 819
Adv N Mvambo		1 905	462	114	305	2 786
Adv NB Senne		2 176	522	123	350	3 171
Dr HL Jansen van Rensburg		1 851	317	109	354	2 631
MP Teffo	14	178	-	11	30	219
		13 583	3 787	662	2 180	20 212

Name	Note	2020				Total
		Basic salary	Other benefits	Allowances	Retirement and other contributions	
Ms JL Mzili		2 107	519	178	312	3 116
Prof N Mkaza		2 419	548	18	364	3 349
JS Mkwanazi		2 511	644	87	394	3 636
Adv NB Senne		2 160	490	122	343	3 115
Dr HL Jansen van Rensburg		1 851	309	496	339	2 995
		11 048	2 510	901	1 752	16 211

Notes:

1. Other benefits include bonus (13th cheque), performance related payments and leave capitalisation.
2. Allowances include sums paid by way of expense allowances, i.e. motor, cell phone, acting allowance and resettlement allowance as well as other long-term service benefits.
3. Retirement and other contributions include contributions made to Armscor retirement funds, medical aid, unemployment and funeral scheme.
4. No emoluments are paid to Armscor Defence Institutes ex-officio Directors: Mr JG Grobler and Adv SP Mbada.
5. Mr KPE Wakeford resigned as the Chief Executive Officer with effect from 30 April 2019.
6. Adv SP Mbada was appointed as Acting Chief Executive Officer with effect from February 2019 and was appointed as the Chief Executive Officer with effect from February 2020.
7. Ambassador T Skweyiya resigned with effect from 31 January 2020 as the Chairperson of the Board.
8. Ms CE Simpson resigned as Non-Executive Director with effect from 10 March 2020.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

39. RELATED PARTIES (CONTINUED)

9. Mr MS Motimele was appointed as the Acting Chairperson of the Board and Amb JT Ndhlovu appointed as the Acting Deputy Chairperson with effect from 27 March 2019.
10. Dr PD Dexter was appointed as the Chairperson of the Board and Mr MS Motimele appointed as the Deputy Chairperson with effect from 1 December 2020.
11. Board members whose term came to an end effective 31 October 2020.
12. New members of the Board of Directors appointed with effect from 1 December 2020.
13. Mr JS Mkwana retired from Armscor effective 31 March 2021.
14. Mr MP Teffo was appointed to the Executive Committee from 1 March 2021.

40. CHANGE IN ESTIMATE

Property, plant and equipment

Based on the latest available and reliable information there was a change in the estimated useful life of some assets, which resulted in a decrease in depreciation of R4 585 thousand (2020: R4 625 thousand decrease).

41. FRUITLESS AND WASTEFUL EXPENDITURE

Opening balance as previously reported	973	2 515
Opening balance as restated	973	2 515
Add: Amount relating to current financial year	6	-
Add: Amount relating to prior financial year	-	395
Less: Amounts written-off or reversed	(929)	(1 937)
Closing balance	50	973

Expenditure amounting to R6 thousand (2020: R395 thousand) was recorded during the financial year and is deemed to be fruitless and wasteful. The expenditure was as a result of penalties charged. An investigations was performed and found no person could be held liable as delays were directly linked to the lockdown.

Additionally, expenditure of R929 thousand (2020: R1 937 thousand) related to previous years was written off after completion of investigation.

Fruitless and wasteful expenditure under determination in relation to work performed for other parties

Fruitless expenditure amount to R4 571 thousands (2020: RNil) were incurred on behalf of the DOD as a result of penalties charged. Investigations are on going and yet to be concluded.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

42. IRREGULAR EXPENDITURE

	2021 R'000	2020 R'000
Opening balance as previously reported	34 603	22 161
Opening balance as restated	34 603	22 161
• Amount relating to prior financial years	1 245	2 693
• Amount relating to current financial year	5 682	9 756
Less: Amounts condoned	(11)	(1)
Less: Amounts written-off or reversed	-	(6)
Closing balance	41 519	34 603

Details of irregular expenditure

Irregular expenditure of R6 927 thousand (2020: R12 449 thousand) was noted during the year. R5 321 thousand (2020: R9 637 thousand) relates to security cost which is deemed to be irregular. The cost were incorrectly approved as sole source during the previous financial year & a new procurement process was followed where a new supplier is now in place since October 2020. R Nil thousand (2020: R1 245), relating to prior year, was treated as single source procurement without the required approval from National Treasury. R Nil thousand (2020: R119 thousand) relates to procurement that occurred without following the competitive bidding process. R337 thousand (2020: R Nil) related to contract extensions above the National Treasury threshold and not following competitive bidding process and R24 thousand (2020: R Nil) relates to services that were provided by a non-tax complaint service provider. Consequence management was taken on responsible officials in line with internal processes.

43. SEGMENT INFORMATION

General information

Identification of segments

The entity activities are very broad, and are undertaken in a wide range of different geographical areas with different socioeconomic characteristics. To enable efficient and effective delivery on the strategy, the Executive Management structure sub-divided the group into three categories, namely: Armscor Corporate, Dockyard and Research & Development. In establishing the segments to report on, management organised the financial information according to the three existing structures. Management uses these same segments for determining service level agreement objectives.

Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

43. SEGMENT INFORMATION (CONTINUED)

The Medical Benefit Fund does not meet the definition of a segment, however the Fund is consolidated as part of the Group as it is deemed not to meet the requirements of a planned asset in terms of GRAP 25.

Measurement basis for inter-segment transactions:

Reported segments are measured based on management reporting for purposes of making decisions about allocating resources to the segment and assessing its performance.

The segments were structured such that the totals of revenues, reported surplus/(deficit), assets, liabilities and other material items corresponds to figures recognised in the Annual Financial Statements, except for inter-divisional transaction and balance eliminations. Therefore, a reconciliation of the segment figures to the Annual Financial Statements is not necessary.

Types of goods and/or services by segment

These reportable segments as well as the goods and/or services for each segment are set out below:

Reportable segments	Goods and/or services
Armcor Corporate	Armcor renders acquisition management to the DOD and the SANDF throughout the life cycle of a product.
Dockyard	Management of the Armcor Dockyard as a strategic facility of the SA Navy to be available for service provision to the DOD.
Research and Development	Manages the research, test and evaluation strategic facilities of Armcor and manufacture respiratory equipment, which has the DOD as its primary client.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSANDS

43. SEGMENT INFORMATION (CONTINUED)

Segment surplus or deficit, assets and liabilities

2021	Armcor Corporate R'000	Dockyard R'000	Research and Development R'000	Eliminations R'000	Total R'000
Revenue					
Revenue from non-exchange transactions	732 125	244 179	99 476	-	1 075 780
Revenue from exchange transactions	122 341	26 633	283 985	(46 426)	386 533
Deferred income recognised	4 891	32 069	-	586	37 546
Interest revenue	83 493	2 358	10 638	(13 061)	83 428
Fair value adjustment	3 460	-	-	-	3 460
Total segment revenue	946 310	305 239	394 099	(58 901)	1 586 747
Entity's revenue					1 586 747
Expenditure					
Salaries and wages	655 129	226 806	241 344	96	1 123 375
Other expenses	132 059	50 647	181 678	(63 903)	300 481
Depreciation and amortisation	55 471	9 870	28 818	-	94 159
Impairment losses reversed/(recognised)	(29 799)	-	767	-	(29 032)
Total segment expenditure	812 860	287 323	452 607	(63 807)	1 488 983
Medical benefit fund total revenue					37 377
Medical benefit fund total expenditure					(10 874)
Entity's surplus (deficit) for the period					124 267
Assets					
Current assets	891 195	53 073	213 581	(230 712)	927 137
Non-current assets	1 962 439	30 387	524 925	(41 124)	2 476 627
Investment in joint venture	100	-	-	(100)	-
Total segment assets	2 853 734	83 460	738 506	(271 936)	3 403 764
Medical benefit fund assets					185 105
Total assets as per Statement of financial position					3 588 869
Liabilities					
Current liabilities	405 870	62 847	143 148	(276 577)	335 288
Non-current liabilities	126 733	161 479	35 812	-	324 024
Total segment liabilities	532 603	224 326	178 960	(276 577)	659 312
Medical benefit fund liabilities					7 397
Total liabilities as per Statement of financial position					666 709

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSANDS

43. SEGMENT INFORMATION (CONTINUED)

Other information

Capital expenditure (excluding additions to financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts)

Capital expenditure consists of additions of property, plant and equipment and intangible assets.

Armcor Corporate R'000	Dockyard R'000	Research and Development R'000
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9 776	20 848	25 791
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Segment surplus or deficit, assets and liabilities 2020

	Armcor Corporate R'000	Dockyard R'000	Research and Development R'000	Eliminations Restated R'000	Stated Total R'000
Revenue					
Revenue from non-exchange transactions	838 132	206 911	101 003	-	1 146 046
Revenue from exchange transactions	165 765	68 645	374 674	(128 209)	480 875
Deferred income recognised	-	29 716	-	-	29 716
Share of surplus of joint ventures	-	-	-	2 456	2 456
Interest revenue	80 588	3 466	12 973	-	97 027
Total segment revenue	1 084 485	308 738	488 650	(125 753)	1 756 120
Entity's revenue					1 756 120
Expenditure					
Salaries and wages	688 775	208 133	222 454	(887)	1 118 475
Other expenses	167 947	91 296	223 173	(124 052)	358 364
Depreciation and amortisation	57 872	7 157	27 335	-	92 364
Impairment losses reversed/ (recognised)	(8 796)	(144)	196	-	(8 744)
Fair value adjustment	1 460	-	-	-	1 460
Total segment expenditure	907 258	306 442	473 158	(124 939)	1 561 919
Total segmental surplus/(deficit)					194 201
Medical benefit fund total revenue					26 825
Medical benefit fund total expenditure					(41 481)
Entity's surplus (deficit) for the period					179 545

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSANDS

43. SEGMENT INFORMATION (CONTINUED)

Segment surplus or deficit, assets and liabilities

2021	2020
R'000	R'000

	Armcor Corporate R'000	Dockyard R'000	Research and Development R'000	Eliminations Restated R'000	Stated Total R'000
Assets					
Current assets	1 043 178	38 264	241 996	(227 016)	1 096 422
Non-current assets	1 704 665	19 409	528 092	(41 132)	2 211 034
Investment in joint venture	100	-	-	(100)	-
Total segment assets	2 747 943	57 673	770 088	(268 248)	3 307 456
Medical benefit fund assets					158 414
Total assets as per Statement of financial position					3 465 870
Liabilities					
Current liabilities	423 803	49 003	119 751	(267 983)	324 574
Non-current liabilities	82 245	167 453	32 284	54 213	336 195
Total segment liabilities	506 048	216 456	152 035	(213 770)	660 769
Medical benefit fund liabilities					7 209
Total liabilities as per Statement of financial position					667 978

	Armcor Corporate R'000	Dockyard R'000	Research and Development R'000
Other information			
Capital expenditure (excluding additions to financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts)	7 330	9 572	23 194
Inter-segment revenue	24 374	3 465	17 351

Capital expenditure consists of additions of property, plant and equipment and intangible assets. As a result of prior year error identified in the current financial year, the segment report for 2020 was restated to reflect the prior year error adjustments. For more detail on the prior year error and the adjustment done, please refer to note 48.

44. CONTRACTUAL COMMITMENTS

Projected outstanding commitments in respect of orders placed for expected deliveries	201 510	112 791
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSANDS

2021	2020
R'000	R'000

44. CONTRACTUAL COMMITMENTS (CONTINUED)

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 R112 740 thousand (2020: R86 992 thousand).

45. CAPITAL COMMITMENTS

Authorised capital expenditure

Capital expenditure approved but not yet contracted

Property, plant and equipment	12 024	29 320
Intangible assets	1 522	847
	13 546	30 167

The committed expenditure relates to plant and equipment and computer software, and will be financed with cash reserves and funds internally generated.

46. ACCOUNTING BY PRINCIPALS AND AGENTS

Details of the arrangement(s) is|are as follows: Details of the arrangement(s) is|are as follows:

Transactions with the DOD

Armcor receives its mandate from the Armaments Corporation of South Africa, Limited Act (Act No. 51 of 2003) and the Armaments Corporation of South Africa, Limited amendment Act (Act No. 16 of 2005), in terms of which the Corporation is empowered to meet: 1) the defence matériel requirements of the DOD effectively, efficiently and economically; and 2) the defence technology, research, development, analysis, test and evaluation requirements of the DOD effectively, efficiently and economically.

To execute its mandate, Armcor received a Government grant from the State through the Department of Defence (DOD) as well as secondary grant (in terms of separate Memorandum of Agreements) for services rendered to the DOD.

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

The secondary grants received, based on Memorandum of Agreements (MOA) with the DOD, for specific services are recognised as revenue as and when the conditions of receipt thereof has been fulfilled and are included in sale of goods and services.

In return for the grants received, Armcor contracts with third parties as an agent acting on behalf/for the benefit of the DOD.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

46. ACCOUNTING BY PRINCIPALS AND AGENTS (CONTINUED)

Defence Transformative Enterprise Development Programme (DEFTED)

The DEFTED programme is a ministerial programme approved by the Minister of Defence and Military Veterans. The programme seeks to address the lack of transformation within the SA Defence Sector and promote the inclusion of black owned SMMEs in the defence economy. The programme aims to support SMME capability development in various domains such as the Radar, Electronic Warfare and Maritime domains, which are strategic and sovereign capabilities according to Chapter 15 of the Defence Review of 2015. Armscor as the Principal agent of the DOD, entered into third party contracts with the SMMEs on behalf of the DOD. The DOD provided funding for the DEFTED programme through Armscor via MOA, which in turn was allocated to the SMMEs for Technology Development and Enterprise Development. Armscor then charged the DOD a management fee to manage and administer the programme.

The operating procedures and terms and condition of the arrangement with the DOD are no more or no less favourable than the terms it would use to conclude transactions with another entity or person. There were no changes to the terms and condition of the arrangement that occurred during the reporting period.

Entity as agent

Resources held on behalf of the principal(s), but recognised in the entity's own financial statements

The amount of liabilities that were incurred on behalf of the DOD and recognised in the Armscor's own financial statements is R5 836 thousand (2020: R7 534 thousand).

No assets held on behalf of the DOD have been recognised in the Armscor's own financial statements except for cash received on behalf of DOD amounting to R5 836 thousand (2020: R7 534 thousand).

Revenue recognised

The aggregate amount of revenue that the entity recognised as compensation for the transactions carried out on behalf of the principal is R4 383 thousand (2020: R4 383 thousand *Restated).

Liabilities and corresponding rights of reimbursement recognised as assets

Additional information

Revenue and expenses that relate to transactions with third parties undertaken in terms of the principal-agent arrangement

Receivables and/or payables recognised based on the rights and obligations established in the binding arrangement(s)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

2021	2020
R'000	R'000

46. ACCOUNTING BY PRINCIPALS AND AGENTS (CONTINUED)

Reconciliation of the carrying amount of payables

Payable incurred on behalf of DOD

Opening balance	7 534	11 579
Amounts transferred to the principal	(1 698)	(4 045)
	5 836	7 534

All categories

Opening balance	7 534	11 579
Amounts transferred to the principal	(1 698)	(4 045)
	5 836	7 534

Additional note:

The entity reported fruitless & wasteful expenditure as a result of penalties charged on work performed on behalf of the DOD. Refer to note 41 for further disclosure.

In the previous financial year, the disclosed amount for revenue recognised was restated from previous incorrect amount of R1 170 796 thousand to an amount of R4 383 thousand. This restate was as a result of the incorrect classification and inclusion of some amounts received from the DOD.

47. ENTITY FINANCIAL STATEMENT

Entity financial statements have not been prepared as they are similar to Group financial statements. The only difference relates to the inclusion of a Joint Venture transaction, which amounts to R Nil (2020: R2 457 thousand surplus).

Reconciliation of entity surplus/(deficits) to Group surplus/(deficit)

Entity surplus/(deficit) after tax	124 267	177 088
Joint Venture transaction	-	2 457
Group surplus/(deficit)	124 267	179 545

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

47. ENTITY FINANCIAL STATEMENT (CONTINUED)

	2021 R'000	2020 R'000
Financial position differences:		
Investment in Joint Venture	100	-
Equity	2 922 160	2 922 160

48. RESTATEMENTS

Presented below are those items contained in the statement of financial position and statement of financial performance that have been affected by prior-year adjustments:

48.1 PRIOR PERIOD ERRORS

48.1.1 REVENUE AND COST OF SALES FROM DEFTED MOA

In the previous financial year transactions between the Armscor Research & Development and several Small, Medium and Micro Enterprises (SMME) were incorrectly recognised in the Group's financial statements. These transactions related to services provided on behalf of the DOD where the Group was acting as an agent of the DOD. The incorrect treatment resulted in the over statement of revenue and cost of sales by R40 749 thousand. The misstatement has no effect on prior year Group surplus or retained earnings.

48.1.2 OTHER LONG-TERM EMPLOYEE BENEFITS

An error was noted in the current year audit whereby other long-term employee benefits were not accounted for as required by GRAP 25.

The error resulted in other long-term employee benefit obligation being understated by R54 213 thousand and employee expense related cost for 2019/20 financial year being overstated by R887 thousand and the opening accumulated surplus being overstated by R55 100 thousand.

48.1.3 CASH FLOW STATEMENT

An error was noted during the current year's audit that some of the amounts disclosed on the face of the cash flow statement were incorrectly calculated. The error affected 2019/20 financial year.

The error resulted in the amount disclosed for Sale of goods & services being understated by R13 020 thousand, the amount disclosed for Payment to employees being overstated by R64 182 thousand and the amount disclosed for Payment to suppliers overstated by R51 162 thousand.

48.1.4 ACCOUNTING BY PRINCIPALS AND AGENTS

In the previous financial year, the disclosed amount for revenue recognised by Armscor for agent services rendered to the DOD was restated from previous incorrect amount of R1 253 698 thousand to an amount of R4 383 thousand. This restate was as a result of the incorrect classification and inclusion of some amounts received from the DOD.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

FIGURES IN RAND THOUSAND

48. RESTATEMENTS (CONTINUED)

48.2 THE DETAILED IMPACT OF THE RESTATEMENTS OF THE 2020 YEAR

Statement of financial performance (2020)

	Note	As previously reported	Prior period error	Restated
Rendering of services		389 643	(40 748)	348 895
Cost of sales		(195 146)	40 748	(154 398)
Employee related costs		(1 119 445)	887	(1 118 558)
		(924 948)	887	(924 061)

Statement of financial position (2020)

	Note	As previously reported	Re-classification	Restated
Employee benefit obligation		218 976	54 213	273 189
Accumulated surplus		650 835	(54 213)	596 622
		869 811	-	792 524

Cash Flow Statement (2020)

	Note	As previously reported	Prior period error	Restated
Sale of goods and services		551 926	13 020	564 946
Payment to employees		(1 127 207)	(64 182)	(1 191 389)
Payment to suppliers		(411 850)	51 162	(360 688)
		(987 131)	-	(987 131)

49. EVENTS AFTER THE REPORTING DATE

VOLUNTARY SEVERANCE PACKAGES (VSP)

Subsequent to the reporting date the process of the VSP mentioned in note 38 was concluded. This resulted in 107 employees accepting the offer, at a cost of R83 843 thousand to the Group.

50. NON-COMPLIANCE TO B-BBEE LEGISLATION

The annual report for 2019/20 was submitted two months after approval to the Commission. This resulted in a non-compliance with section 13(1)G of the Public Finance Management Act and Regulation 12(2) of the B-BBEE Legislation, which requires the annual report to be submitted within thirty (30) days of the approval of such audited annual financial statements and annual report.

SUPPLEMENTARY INFORMATION (UNAUDITED)

FIGURES IN RAND THOUSAND

1. TOTAL VALUE OF ACQUISITION ACTIVITIES

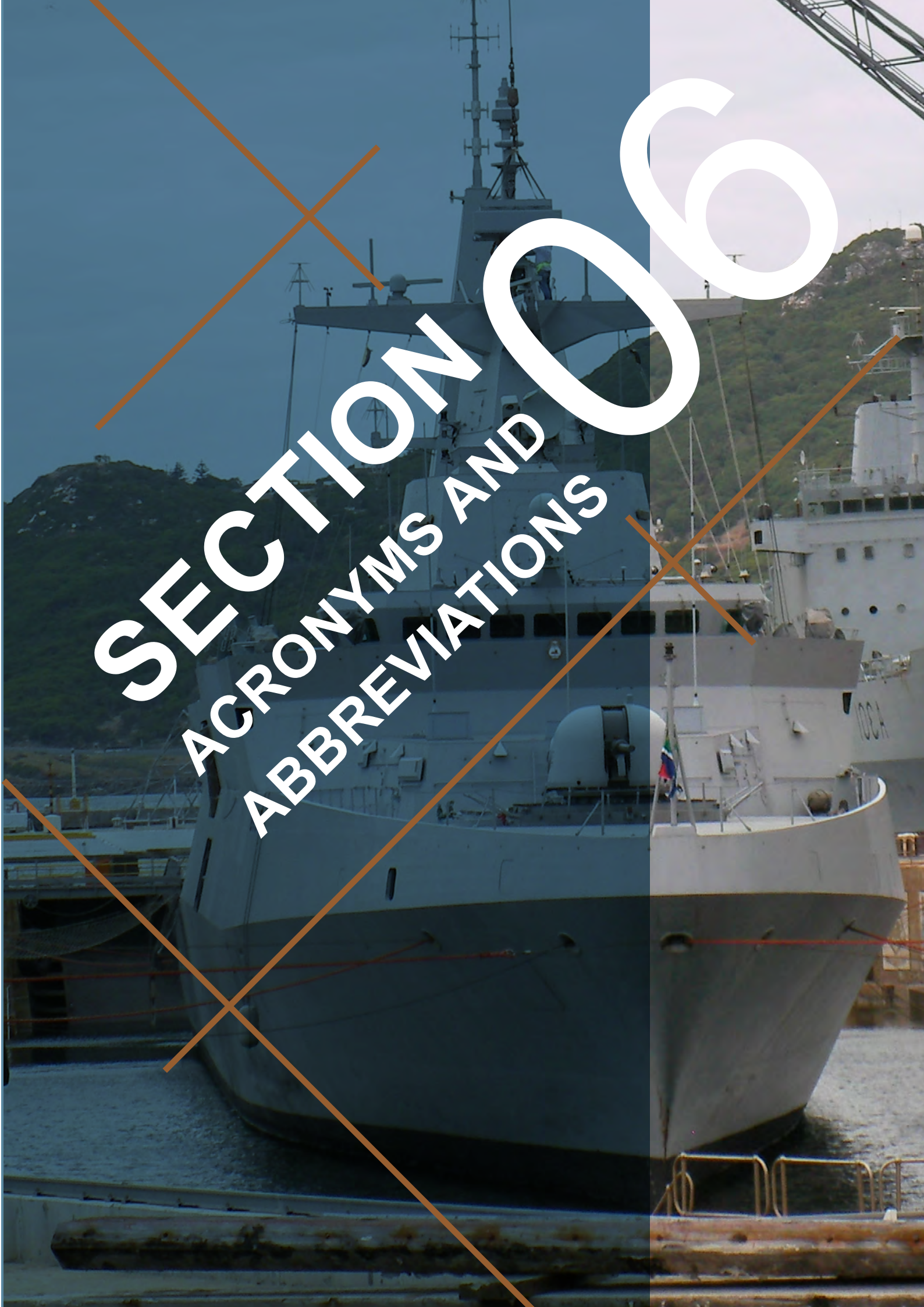
Government grant for operating expenditure is obtained to undertake acquisition actions. In accordance with Armscor's mandate, acquisition was undertaken on behalf of the following organisations:

	2021 R '000	2020 R '000	2019 R '000	2018 R '000	2017 R '000
Department of Defence					
• Special Defence Account	2 879 000	3 989 000	3 782 000	4 458 000	5 275 000
• General Defence Account	1 801 000	1 801 000	1 820 000	2 085 000	2 248 000
SA Police Service	-	-	-	-	2 000
Other	35 500	46 000	78 000	21 000	153 000
	4 715 500	5 836 000	5 680 000	6 564 000	7 678 000

2. SDA COMMITTED ORDERS

Armscor enters into contracts with suppliers for acquisition related projects in the execution of its mandate, and as an agent of the Department of Defence. The contracts are settled utilising funds from the Special Defence Account, which is the primary financing tool for the acquisition of defence matériel.

The allocation of funds by the National Treasury to the Special Defence Account continues to decline at a level that puts the ability to fund existing and committed programs at risk. The Department of Defence is, however, in discussion with the National Treasury for additional funding. Armscor does not place any order for the acquisition of defence matériel without confirmation from the Department of Defence that the necessary funding is available, and is also further reviewing options available in order to minimise the risk for Armscor and the Department of Defence on a continuous basis.



SECTION ACRONYMS AND ABBREVIATIONS

06

6.1 LIST OF ACRONYMS AND ABBREVIATIONS

Adv:	Advocate	IMT:	Institute for Maritime Technology
Arm Scor:	Armaments Corporation of South Africa	IP:	Intellectual Property
B-BBEE:	Broad-Based Black Economic Empowerment	IPMAD:	Intellectual Property Management Division
BEE:	Black Economic Empowerment	ISO:	International Organisation for Standardisation
BOE:	Black Owned Enterprise	MMIPV:	Multi-Mission Inshore Patrol Vessel
BWOE:	Black Women Owned Enterprise	MMOPV:	Multi-Mission Offshore Patrol Vessel
CAE:	Chief Audit Executive	MOA:	Memorandum of Agreement
CEO:	Chief Executive Officer	MOTS:	Military-Off-The-Shelf
CFO:	Chief Financial Officer	MOU:	Memorandum of Understanding
COTS:	Commercial-Off-The-Shelf	NCACC:	National Conventional Arms Control Committee
CSI:	Corporate Social Investment	NDIC:	National Defence Industry Council
CSIR:	Council for Scientific and Industrial Research	NDP:	National Development Plan
CWC:	Chemical Weapons Convention	OEM:	Original Engine Manufacturer
DDSI:	Defence Decision Support Institute	OPCW:	Organisation for the Prohibition of Chemical Weapons
DED:	Docking Essential Defects	PFMA:	Public Finance Management Act
DEFTED:	Defence Transformative Enterprise Development	PPE:	Personal Protective Equipment
DEPS:	Defence Equipment Personnel Support	QMS:	Quality Management System
DERIs:	Defence Evaluation and Research Institutes	QSE:	Qualifying Small Enterprise
DESUP:	Defence Engineering and Science University Programme	R&D:	Research and Development
DIP:	Defence Industrial Participation	SAAF:	South African Air Force
DLS:	Denel Land Systems	SADI:	South African Defence Industry
DOD:	Department of Defence	SAMHS:	South African Military Health Service
DPWI:	Department of Public Works and Infrastructure	SANDF:	South African National Defence Force
dtic:	Department of Trade, Industry and Competition	SANHO:	South African Navy Hydrographic Office
EME:	Exempted Micro Enterprise	SAPS:	South African Police Services
ERGOTECH:	Ergonomics Technologies	SARS:	South African Revenue Services
ERP:	Enterprise Resources Planning	SCM:	Supply Chain Management
EXCO:	Executive Committee	SDA:	Special Defence Account
Flamengro:	Fluid and Mechanical Engineering Group	SDG:	Sustainable Development Goal
GBADS:	Ground Based Air Defence System	SDPs:	Special Defence Packages
GRAP:	Generally Recognised Accounting Practice	SHE:	Safety, Health and Environment
GQA:	Government Quality Assurance	SHEQ:	Safety, Health, Environment and Quality
HR:	Human Resources	SMME:	Small, Medium and Micro Enterprise
HSV:	Hydrographic Survey Vessel	SMB:	Survey Motor Boat
ICT:	Information Communication Technology	SOE:	State-Owned Enterprise
		STEM:	Science, Technology, Engineering and Mathematics
		TEMANI	Technology Management, Analysis and Industrialisation
		UNICEF	United Nations International Children's Emergency Fund

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Lined area for notes.



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