

②

ARMAMENTS CORPORATION OF SOUTH AFRICA



QUARTERLY PERFORMANCE REPORT

FOR THE PERIOD

1 APRIL 2006 TO 30 JUNE 2006

Deleted: THREE-

Deleted:

Deleted: YEAR
INTEGRATED CORPORATE
AND BUSINESS PLAN
2006/2007

Deleted: IN RESPECT OF
ARMSCOR'S CORPORATE
PLAN

¶
¶
¶

Formatted: Position:
Horizontal: Center, Relative to:
Margin

NO	INDEX	PAGES	Formatted: Font: 14 pt
			Formatted Table
			Formatted: Centered
1.	INTRODUCTION	3	
2.	ARMSCOR'S CRITICAL SUCCESS FACTORS	3	
3.	ARMSCOR'S STRATEGIC PRIORITIES	4	
4.	ARMSCOR'S PERFORMANCE AGAINST SET OBJECTIVES FOR 2006/2007:	5	
4.1	The Corporation must acquire defence matériel, facilities and services	6	
4.2	The Corporation must acquire defence-related technology	7	
4.3	The Corporation must establish a programme management system	8	
4.4	The Corporation must provide for a quality assurance capability	8	
4.5	The Corporation must establish a system for tender contract and management	9	
4.6	The Corporation must dispose of defence matériel in consultation with the original manufactures	10	Deleted: the organisation that
4.7	The Corporation must establish a compliance administration system	10	Deleted: ly
4.8	The Corporation must provide marketing support to the defence-related industries	11	Deleted: d the matériel
4.9	The Corporation must support, maintain and manage strategic and essential defence industrial capabilities, resources and technologies	11	Formatted: Indent: Left: 0.57 cm
4.10	The Corporation must provide defence operational support	12	Deleted: .
4.11	The Corporation must establish a defence industrial participation programme management system	13	
4.12	Corporate Governance	13	
4.13	Armcor Strategic Initiatives in support of National Initiatives	14	Deleted: Objectives in support of national initiatives and
			Deleted: 's own strategic issues.
5.	ANNEXURE A		
	ARMSCOR GROUP FINANCIAL STATEMENTS	16	Formatted: Font: Bold
A1	Acquisition Activities	17	Deleted: Armcor's Income Statement
A2	Armcor Income Statement	18	Deleted:
A3	Armcor Group Balance Sheet	19	Deleted: .
A4	Consolidated Income Statement for Armcor and Armcor Business	20	Formatted: Position: Horizontal: Center, Relative to: Margin

1. INTRODUCTION

This report reflects progress against set objectives for Armscor for the first quarter of the 2006/2007 financial year.

In its Three-year Integrated Corporate and Business Plan Armscor has identified three separate performance areas to manage and monitor, as follows:

- **Armscor's Critical Success Factors**

Armscor relates its critical success factors to the eight objectives to be covered by the transfer payment received from the Department of Defence as described in the Service Level Agreement between Armscor and the Department of Defence.

- **Armscor's Strategic Priorities**

Armscor has identified four Strategic Initiatives that are regarded as the Key Result Areas that will assist Armscor in achieving its Mission and ultimately the Vision to which it aspires.

- **Armscor's Budgeted Group Financial Statements**

Armscor's Group Financial Statements reflect budgeted income and expenditure for the group for the 2006/2007 financial year.

Deleted: F

Deleted: Y

Deleted: Armscor has identified in the

Deleted:

Deleted: Y

Deleted: the following

Deleted: . These areas are

Deleted: d

Deleted: to

Deleted: e

Deleted: s

2. ARMSCOR'S CRITICAL SUCCESS FACTORS

A Service Level Agreement entered into between ARMSCOR and the Department of Defence formalises the service delivery to be provided to the Department of Defence for the transfer payment made to ARMSCOR. This Service Level Agreement is updated annually or as circumstances may direct.

ARMSCOR has therefore related its critical success factors to the services to be rendered to the Department of Defence as described in the Service Level Agreement. The Service Level Agreement is regarded as a separate agreement between ARMSCOR and the Department of Defence and the detail is not covered in the Corporate Plan. Reporting on progress made in respect of the Service Level Agreement will be reported directly to the Department of Defence via the office of the Secretary for Defence.

The funding requirements to maintain and manage capabilities in order to deliver the desired services to the Department of Defence are contained in the Service Level Agreement. Should funding requirements not be met, Armscor's capabilities will decay and collapse over a relatively short term.

Formatted: Position:
Horizontal: Center, Relative to:
Margin

There are prerequisites to enable Armscor to provide the expected services as described in the Shareholder's Compact between the Minister of Defence and Armscor's Board of Directors, and the Service Level Agreement signed between the Secretary for Defence and the Chief Executive Officer of Armscor. The twelve most essential prerequisites are as follows:

- To obtain sufficient funding
- To have an effective and efficient IT infrastructure
- To have an effective and efficient infrastructure, where infrastructure refers to Armscor's support services, i.e. administrative services, building and environment, telecommunications, etc.
- To have well-defined processes and procedures
- To have positive and active support from its stakeholders
- To constantly exceed client expectations
- To create mutually beneficial relationship with our stakeholders
- To operate a sustainable organisation in order to maintain centres of excellence
- To have an effective contracting model
- To institute and maintain sound processes
- To attract, rejuvenate and retain a well qualified, motivated, trained and capable workforce
- To transform the organisation in line with governmental imperatives

3. ARMSCOR'S STRATEGIC PRIORITIES

The increasing needs of the Department of Defence for specialised services, the Government policy of outsourcing services which can be delivered more efficiently and effectively by public and private enterprises and the Government's declared policy to enter into Public-Private Partnerships with the view to optimising the use of state assets, are having a substantial influence on the strategic direction of Armscor. Three main focus areas have evolved:

Acquisition of defence matériel for the South African National Defence Force and the contracting for through-life support of in-service equipment (currently ARMSCOR's main focus area).

Armscor Business (Pty) Ltd which:

- Provides scientific and test evaluation support to Acquisition and South African National Defence Force operational users;
- Disposes of redundant South African National Defence Force stock;
- Provides specialist shipping and transport services; and

Deleted: <#> Armscor Business Critical Success Factors

Deleted: <#>[

Formatted: Font: Times New Roman, 12 pt

Formatted: Indent: Left: 1.27 cm, Space Before: 12 pt, After: 6 pt

Formatted: Font: Times New Roman, 12 pt

Formatted: Font: Times New Roman, 8 pt

Formatted: Line spacing: 1.5 lines

Formatted: Bullets and Numbering

Formatted: Font: Times New Roman, 12 pt

Formatted: Font: Times New Roman, 12 pt

Formatted: Font: Times New Roman, 12 pt

Formatted: Indent: Left: 1.27 cm, Line spacing: 1.5

Formatted: Font: Times New Roman, 12 pt

Formatted: Font: Times New Roman, 12 pt

Formatted: Font: Times New Roman, 12 pt

Formatted: Line spacing: 1.5 lines

Formatted: Bullets and Numbering

Formatted: Font: Times New Roman, 12 pt

Formatted: Font: Times New Roman, 12 pt

Deleted: business

Deleted: <#>To constantly exceed client expectations[
<#>To create mutually beneficial relationship with our stakeholders]

Deleted: business

Formatted: Indent: Left: 1.27 cm

Deleted: a

Deleted: of

Deleted: .

Deleted: C

Deleted: S

Formatted ... [1]

Deleted: .

Formatted ... [2]

CORPORATE PLAN – REPORT BACK

Deleted: ¶

PERFORMANCE AGAINST GOALS:

4.1 The Corporation must acquire defence matériel, facilities and services

OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
4.1.1 Develop and maintain acquisition capabilities	<p>Establish and implement a (Acquisition) capability management model for Armscor by 1 September 2007 (e.g. to manage domain knowledge, technical skills, management skills and personnel capacity in each domain).</p> <ul style="list-style-type: none"> Goal (2006/2007): Refine capability management model by 31 March 2007 	<p>The goal as set for the previous year was met. Progress continues to be made on achieving the goal of refinement and full implementation by the end of 2007. Currently the Capability Audit in the Acquisition Department has been completed and the results are being normalised. The development of a Business Audit tool has also been completed and the Business Audit will commence shortly with expected completion in the next quarter. Once this has been finalised the necessary Gap Analysis can be carried out and the process applied fully.</p>
4.1.2 Review and optimise processes and maintain ISO 9001 listing	Armscor is subjected to annual ISO 9001 audits. Zero significant audit findings allowed and ISO listing to be maintained at the end of each financial year (i.e. maintain the robust and accountable processes of the Corporation).	

Formatted: Line spacing: single

Formatted: Bullets and Numbering

Formatted: Space Before: 0 pt, After: 0 pt, Line spacing: single

Formatted: Line spacing: single

Formatted: Position: Horizontal: Center, Relative to: Margin

OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
	<ul style="list-style-type: none"> Goal (2006/2007): Maintain ISO 9001 listing by 31 March 2007 	Certification has been confirmed and the certificate dated 14 June 2006 has been received. It is valid until 13 June 2009, provided the six interim audits in this period are successful.
4.1.3 Enhance Armscor's acquisition services to the DOD	<p>Implementation of the acquisition benchmark study findings (i.e. with a view to refining improving and streamlining acquisition / procurement process, systems, tools and practices)</p> <ul style="list-style-type: none"> Goal (2006/2007): Implement recommendations from the acquisition benchmark study in accordance with the implementation plan 	<p>All recommendations of the Benchmark Study have been included in the various relevant initiatives and are progressing as per these initiatives. This exercise is thus complete and the various recommendations are reported on, in terms of the relevant initiative.</p>
4.2 The Corporation must acquire defence-related technology		
4.2.1 Re-align process to comply with the new DOD Technology Policy	<p>Updated Practice and Procedure documents</p> <ul style="list-style-type: none"> Goal (2006/2007): Amend processes for Technology Management. Update/establish and implement applicable management documents and processes (Practices and Procedures) by 31 March 2007 	<p>No progress has been achieved as the DOD Policy has not yet been completed and promulgated.</p>

Formatted: Line spacing: single

Deleted: o

Deleted: s

Formatted: Bullets and Numbering

Deleted:

Formatted: Line spacing: single

Formatted: Space Before: 0 pt, After: 0 pt, Line spacing: single

Formatted: Position: Horizontal: Center, Relative to: Margin

OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
4.3 The Corporation must establish a programme management system		
4.3.1 Develop and maintain a project management system incorporating a Work Authority System with formal resource allocation and resource usage	Refined and implemented system to be fully operational by 31 March 2007 <ul style="list-style-type: none"> Goal (2006/2007): Implement MS Projects as a Project Management System and Work Authority System by 31 March 2007 	<p>The project management system has been established utilising Microsoft Projects. Extension of this capability to address Work Authority is progressing together with the Acquisition Business audit system mentioned above, but full implementation will only be achieved once the COMAS system is delivered. Work is also progressing to make MS Projects more user friendly and useful as a management tool as it is currently perceived to be very complex and not very user friendly. The cost of the MS Projects licences remains a concern.</p>
4.4 The Corporation must provide for a Quality Assurance capability		
4.4.1 Maintain and expand a capability in the quality discipline	Accepted and approved Learnerships <ul style="list-style-type: none"> Goal (2006/2007): Develop level 4 learnership by 31 March 2007 	<p>An execution plan has been developed, complete the level 4 learnership by 31 March 2007 and at present the execution is on target.</p>

Formatted: Bullets and Numbering

Formatted: Space Before: 0 pt, After: 0 pt, Line spacing: single

Deleted: s

Formatted: Bullets and Numbering

Formatted: Space Before: 0 pt, After: 0 pt, Line spacing: single

Formatted: Font: 8 pt

Deleted:

Deleted: has been developed

Formatted: Position: Horizontal: Center, Relative to: Margin

OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
<p>4.4.2 Maintain and expand a capability in the quality discipline</p>	<p>Establish baseline for Quality Assurance capabilities, develop and implement Capability Management Model</p> <ul style="list-style-type: none"> • Goal (2006/2007): Design/develop capability management model and implement on a trial basis by 31 March 2007 	<p>Initial discussions took place to develop process to :</p> <ol style="list-style-type: none"> develop a capability management model identify sources for inputs on Armscor requirements for a 'capability management system' for the Quality Division.
<p>4.5 The Corporation must establish a system for tender and contract management</p>		
<p>4.5.1 Transform current KBA System (Contract Management and Admin system) to be more cost effective and include additional functionalities as defined in the User Requirement Statement</p>	<p><u>Complete planning and initiate transformation of system by 30 September 2006</u></p> <ul style="list-style-type: none"> • Goal (2006/2007): Run the system on trial/pilot basis between 1 April 2006 and 31 March 2008 	<p>The project to develop the user requirements was kicked off in June 2005. Real IRM have been contracted to develop the URS. The project charter was signed off and the project started in earnest. The planned completion date for the URS is 31 October 2006.</p> <p>This phase has not started yet. The project starting date is 1 November 2006.</p>

Formatted: Font: 8 pt

Formatted: Space Before: 0 pt, Line spacing: single

Formatted: Space Before: 0 pt, After: 0 pt, Line spacing: single

Formatted: Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 5 + Alignment: Left + Aligned at: 0 cm + Tab after: 0.63 cm + Indent at: 0.63 cm

Deleted: T

Deleted: C

Formatted: Space Before: 0 pt, Line spacing: single

Deleted: 2005 / 2006 - User Requirement Statement ¶
2006/2007 - System implemented on a trial basis and - - - rated ¶
2007/2008 - System fully operational

Formatted: Font: 8 pt

Formatted: Position: Horizontal: Center, Relative to: Margin

OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL	Deleted: e
4.6 The Corporation must dispose of defence matériel in consultation with the original manufacturers			Deleted: é
4.6.1 Dispose of excess forfeited defence matériel in consultation with OEM and to the best advantage of the State	Sales turnover to be reached for each financial year as indicated below	Various requests for NCACC approval were put on hold. A special meeting took place between the CEO and the Secretary for Defence to decide on an interim procedure. In future all requests by Armscor will first be discussed by the CEO and the Secretary for Defence before being submitted to the NCACC for approval. The current predicted loss for DMD is R13.7m, and it is foreseen that the target of 90% of the Sales Plan will not be achieved by 31 March 2007.	Deleted: Instance that
	<ul style="list-style-type: none"> • Goal (2006/2007): 90% of Sales Plan by 31 March 2007 		Deleted: who
			Deleted:
			Deleted: ly
			Deleted: d it
			Deleted: the materiel
			Formatted ... [3]
			Deleted: e
			Deleted: é
			Formatted ... [4]
			Formatted ... [5]
			Deleted: .
			Deleted: JAJ de Necker ¶
			Formatted ... [6]
			Deleted: 2005 /
			Formatted ... [7]
			Formatted ... [8]
			Formatted ... [9]
			Formatted ... [10]
			Deleted: cooperation
			Formatted ... [11]
			Deleted:
			Deleted: ¶
			Formatted ... [12]
			Deleted: .
			Deleted: .
			Deleted: ¶
			Formatted ... [13]
			Deleted: it
			Deleted: ¶
			Formatted ... [14]
			Formatted ... [15]
4.7 The Corporation must establish a Compliance Administration System			
4.7.1 Establish, maintain and manage an Arms Control System in cooperation with the DOD, ensuring compliance by Armscor and the SANDF with international and national requirements aimed at arms control and non-proliferation of weapons of mass destruction	Establish structures and management documentation: 2006/2007	<ol style="list-style-type: none"> 1. Discussions have been held with Armscor and DOD role players. 2. DOD is in the process of drafting arms control policy document that will enable Armscor to identify its role and responsibility in this regard. 3. Only then will it be possible to come with a project plan, from which the establishment of structures and management documentation will commence. 	
	<ul style="list-style-type: none"> • Goal (2006/2007): Established structures and management documentation necessary to implement project by 31 March 2007 		

OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL	Deleted:
4.8 The Corporation must provide marketing support to the defence-related industries			Deleted:
Armcor is providing support to the defence-related industry in respect of defence matériel, in consultation with the Department of Defence and the defence-related industry.			Deleted:
4.8.1 Perform study (with the DOD and industry participation) to determine scope and requirements for marketing support	Study Report to be tabled at Armcor's Board of Directors		Deleted: e
	<ul style="list-style-type: none"> Goal (2006/2007): Study Report to be tabled by 31 March 2007 	An Industry study project plan was compiled to determine the scope and requirements of industry and DOD for Marketing Support. This is the first milestone achieved during the quarter under review. The report is to be submitted to the Board of Directors by 31 March 2007.	Formatted: Space Before: 0 pt, Line spacing: single
			Deleted:
			Formatted: Space Before: 0 pt, Line spacing: single
			Formatted: Space Before: 0 pt, Line spacing: single, No bullets or numbering
			Formatted: Space Before: 0 pt, Line spacing: single
			Deleted: from
			Deleted: was compiled
4.9 The Corporation must support, maintain and manage strategic and essential defence industrial capabilities, resources and Technologies.			Formatted: Space Before: 0 pt
4.9.1 Perform study with the DOD to determine which of the Armcor facilities are strategic and essential defence industrial capabilities, resources and technologies for the DOD and determine the best funding model for these facilities	Study report reflecting: <ol style="list-style-type: none"> Armcor facilities regarded as strategic and essential Funding model for these identified facilities <ul style="list-style-type: none"> Goal (2006/2007): Table report with the appropriate findings, at: <ol style="list-style-type: none"> Armcor Management Board Armcor Board of Directors Defence Staff Council by 31 March 2007 	A new working group was formed, consisting of members from DOD, Armcor, DS, DENEL and CSIR, to investigate the implication of transferring the strategic facilities to an entity outside Armcor but in the DOD. The funding model forms part of this integrated study. A full implementation plan will be submitted to the Armcor Management Board during the 2 nd Quarter.	Formatted: Bullets and Numbering
			Deleted: ¶
			Formatted: Space Before: 0 pt, Line spacing: single
			Formatted: Indent: Left: 0 cm
			Formatted: Space Before: 0 pt, Line spacing: single, No bullets or numbering
			Deleted: - - - ¶
			Formatted: ... [16]
			Formatted: Font: 12 pt
			Deleted: - - -
			Formatted: ... [17]
			Formatted: ... [18]
			Deleted: JAJ de Necker ¶
			Formatted: ... [19]

OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
4.9.2 Armscor facilities (Alkantpan Test Range, Institute for Maritime Technology and Gerotek Test Facility) that are currently not self-sustainable to achieve self-sustainability by 31 March 2008	<p>Approved break-even Strategy document with implementation plan to measure the success of this objective</p> <ul style="list-style-type: none"> Goal (2006/2007): Compliance with break-even strategy / plan 	<p>Implementation of the three break-even strategies is on track. Capital replacement projects have been identified and will be presented to the Armscor Management Board for approval in the 2nd Quarter.</p> <p>Three more facilities have been identified as loss-making facilities and break-even strategies will be developed for them also. Presentations were made to the DPBEC to highlight the critical position of Protechnik, Hazmat and DMD.</p>
4.10 The Corporation must provide defence operational support		
4.10.1 Develop and maintain Defence Operational Support capabilities	<p>Establish baseline for Defence Operational Support capabilities in a changing Defence Services environment</p> <ul style="list-style-type: none"> Goal (2006/2007): Design / develop capability management model by 31 March 2007 	<p>This goal should now be incorporated with 4.9 above and will be reported accordingly. The workgroup will study operational support requirements and make a recommendation.</p>