



**ARMSCOR'S  
QUARTERLY PERFORMANCE REPORT**

**FOR THE PERIOD**

**1 APRIL 2006 TO 30 JUNE 2006**



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## 1. INTRODUCTION



The Armcor Three-year Integrated Corporate and Business Plan defines 13 key result areas. The first 11 of these key result areas are directly linked to Armcor's functions as defined in the Armcor Act.

The other two key result areas deal with corporate governance and with Armcor's Strategic Initiatives in support of National Initiatives.

A three-year strategy was developed for each of the aforesaid key result areas, with specific performance indicator(s) (goal) for the first quarter of the 2006/2007 financial year.

## 2. ARMSCOR'S PERFORMANCE AGAINST OBJECTIVES



### OPERATIONAL OBJECTIVES FOR 2006/2007 (FIRST QUARTER)

Armcor translates its operational objectives into strategic initiatives. These objectives are used to measure the Corporation's performance.

Armcor's key result areas are applicable for the next three years and are listed below. An overview of Armcor's performance against set objectives is contained in the following table:

## 2.1 The Corporation must acquire defence matériel, facilities and services



OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
2.1.1 Develop and maintain acquisition capabilities	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). •Goal (2006/2007): Refine capability management model by 31 March 2007	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.
2.1.2 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). •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.

## 2.1 The Corporation must acquire defence matériel, facilities and services



OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
2.1.3 Enhance Armscor's acquisition services to the DOD	Implementation of the acquisition benchmark study findings (i.e. with a view to refining improving and streamlining acquisition / procurement process, systems, tools and practices) •Goal (2006/2007): Implement recommendations from the acquisition benchmark study in accordance with the implementation plan	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.

## 2.2 The Corporation must acquire defence-related technology

OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
2.2.1 Re-align process to comply with the new DOD Technology Policy	Updated Practice and Procedure documents •Goal (2006/2007): Amend processes for Technology Management. Update/establish and implement applicable management documents and processes (Practices and Procedures) by 31 March 2007	No progress has been achieved as the DOD Policy has not yet been completed and promulgated.

### 2.3 The Corporation must establish a programme management system



OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
2.3.1 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 • Goal (2006/2007): Implement MS Projects as a Project Management System and Work Authority System by 31 March 2007	The project management system has been established utilising Microsoft Projects. Extension of this capability to address Work Authorisation 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.

### 2.4 The Corporation must provide for a Quality Assurance capability



OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
2.4.1 Maintain and expand a capability in the quality discipline	Accepted and approved Learnerships • Goal (2006/2007): Develop level 4 learnership by 31 March 2007	An execution plan has been developed to complete the level 4 learnership by 31 March 2007 and at present the execution is on target.
2.4.2 Maintain and expand a capability in the quality discipline	Establish baseline for Quality Assurance capabilities, develop and implement Capability Management Model • Goal (2006/2007): Design/develop capability management model and implement on a trial basis by 31 March 2007	Initial discussions took place to develop a process to : A) develop a capability management model B) identify sources for inputs on Armscor requirements for a capability management system for the Quality Division.

**2.5 The Corporation must establish a system for tender and contract management**



OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
2.5.1 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	Complete planning and initiate transformation of system by 30 September 2006 •Goal (2006/2007): Run the system on trial/pilot basis between 1 April 2006 and 31 March 2008	The project to develop the user requirement 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 of the URS is 31 October 2006. This phase has not started yet. The projected starting date is 1 November 2006.

**2.6 The Corporation must dispose of defence materiel in consultation with the original manufacturers**



OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
2.6.1 Dispose of excess forfeited defence materiel in consultation with OEM and to the best advantage of the State	Sales turnover to be reached for each financial year as indicated below •Goal (2006/2007): 90% of Sales Plan by 31 March 2007	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.

### 2.7 The Corporation must establish a Compliance Administration System



OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
2.7.1 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 •Goal (2006/2007): Established structures and management documentation necessary to implement project by 31 March 2007	<ol style="list-style-type: none"> <li>1. Discussions have been held with Armscor and DOD role players.</li> <li>2. DOD is in the process of drafting an arms control policy document that will enable Armscor to identify its roles and responsibility in this regard.</li> <li>3. Only then will it be possible to come up with a project plan, from which the establishment of structures and management documentation will commence.</li> </ol>

### 2.8 The Corporation must provide marketing support to the defence-related industries



OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
2.8.1 Perform study (with the DOD and industry participation) to determine scope and requirements for marketing support	Study Report to be tabled at Armscor's Board of Directors •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.

2.9 The Corporation must support, maintain and manage strategic and essential industrial capabilities, resources and Technologies



OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
2.9.1 Perform study with the DOD to determine which of the Armscor 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: 1.Armscor facilities regarded as strategic and essential 2.Funding model for these identified facilities •Goal (2006/2007): Table report with the appropriate findings, at: 1.Armscor Management Board 2.Armscor Board of Directors 3.Defence Staff Council by 31 March 2007	A new working group was formed, consisting of members from DOD, Armscor, DST, DENEL and CSIR, to investigate the full implication of transferring the strategic facilities to an entity outside Armscor but still in the DOD. The funding model forms part of this integrated study. A full implementation plan will be submitted to the Armscor Management Board during the 2 <sup>nd</sup> Quarter.

2.9 The Corporation must support, maintain and manage strategic and essential industrial capabilities, resources and Technologies



OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
2.9.2 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	Approved break-even Strategy document with implementation plan to measure the success of this objective •Goal (2006/2007): Compliance with break-even strategy / plan	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 2 <sup>nd</sup> Quarter 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.

#### 2.10 The Corporation must provide defence operational support



OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
2.10.1 Develop and maintain Defence Operational Support capabilities	Establish baseline for Defence Operational Support capabilities in a changing Defence Services environment •Goal (2006/2007): Design / develop capability management model by 31 March 2007	This goal should now be incorporated with 4.9 above and will be reported on accordingly. The workgroup will study all operational support requirements and make a recommendation.

#### 2.11 The Corporation must establish a Defence Industrial Participation Management Programme

OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
2.11.1 Manage Defence Industrial Participation obligations	Approval of DIP credits in line with Strategic Defence Packages and other acquisition contracts •Goal (2006/2007): R1,8 billion credits to be approved	DIP credits to the value of R375 million have been awarded during this first quarter.

#### 2.12 Corporate Governance



OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
2.12.1 Comply with statutory requirements as contained in the Public Finance Management Act	Audit to be done by Armscor's Internal Auditors to ensure Armscor complies with the PFMA •Goal (2006/2007): Zero significant findings by 31 March 2007	The results will be available after the 2006/2007 financial year end.
2.12.2 Manage Armscor's finances and assets in line with GAAP and national prescriptions for Public Entities	Armscor's external audit report to contain zero significant findings •Goal (2006/2007): Zero significant external audit findings in the external audit report for the 2005/2006 financial year	Armscor received an unqualified audit report for the 2005/2006 financial year.

### 2.13 Armscor Strategic Initiatives in support of National Initiatives



OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
2.13.1 Improvement of Armscor's Black Economic Empowerment initiatives	<p>Increase Armscor's spending in respect of the Armscor operating budget and the SDA and GDA accounts on BEE companies</p> <ul style="list-style-type: none"> <li>• Goal (2006/2007):</li> <li>• Operating budget: 45% to be spent on BEE companies by 31 March 2007</li> <li>• SDA &amp; GDA: 25% to be spent on BEE companies by 31 March 2007</li> </ul>	<p>Progress against the BEE targets is as follows:</p> <p>Operating Budget: Actual: 51,6 (Note: Total purchases excluding parastatals amounted to R3 627 522.27. The total spent on BEE companies was R1 871 993.89)</p> <p>SDA &amp; GDA: Actual: 14,06% (Note: R135 049 412.74 is the net spent excluding SDPs, A400m, Super Lynx Helicopters and parastatals. R18 982 060.03 is the figure paid out to BEE companies).</p>

### 2.13 Armscor Strategic Initiatives in support of National Initiatives



OBJECTIVE	KEY PERFORMANCE INDICATOR	PERFORMANCE AGAINST GOAL
2.13.2 Improve the demographic profile of Armscor to reflect the national and regional demographic profile	<p>Progress against Performance indicator:</p> <ul style="list-style-type: none"> <li>• At least 80% of all external appointees in Armscor to be black</li> <li>• At least 20% of external appointees in the technical functional groups to be women</li> <li>• At least 62% of external appointees in the non-technical functional groups to be women</li> <li>• At least 29,2% of employees in the broad bands STS and above to be women</li> </ul> <p>Goal (2006/2007): Performance indicator to be achieved / maintained by 31 March 2007</p>	<ul style="list-style-type: none"> <li>• A total of 100% appointees were black.</li> <li>• No external appointees in the technical functional groups, who are women, were made.</li> <li>• A total of 71,4% of external appointees in the non-technical functional groups are women.</li> <li>• A total of 27,65% of employees in the STS and above broad bands are women.</li> </ul>