ARMS PROCUREMENT COMMISSION

Transparency, Accountability and the Rule of Law

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PHASE 2

DATE: 6 MARCH 2015

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HEARING ON 6 MARCH 2015

CHAIRPERSON: Thank you. Good morning everybody. Advocate
Sibeko?

ADV SIBEKO: Thank you, Chair, Commissioner Musi. We are ready to continue.

RICHARD MICHAEL MOBERLEY YOUNG: (s.u.o.)

<u>ADV SIBEKO</u>: Chair, it does appear that the confirmation of the witness's oath does not seem to be recorded, as the mike was not on. I would just wish to place it on record that he has confirmed that he is still under oath.

<u>CHAIRPERSON</u>: Thank you.

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ADV SIBEKO: Dr Young, when we adjourned yesterday, we were about to start with the topic, dealing with the request for information, which appears on page 28 of your statement. The discussion picks up at paragraph 136. Do you see that?

DR YOUNG: Yes. I see that.

<u>ADV SIBEKO</u>: Now, the evidence relating to the issue, involved the other RFI's pursuant to a decision taken, after the defence review is already on record in, before this Commission. Is there anything you would like to highlight, with regard to the issuing of the RFI?

<u>DR YOUNG</u>: Not specifically. Although, probably, in paragraph 137, I refer to a very important document, which we will address in a bit more detail later. But, I introduce it now. It is called the element costing and description.

25 ADV SIBEKO: Will you just briefly want to highlight, wish to highlight

what, what the relevance of the element costing and description is, to your evidence?

<u>DR YOUNG</u>: Do you say the relevance?

ADV SIBEKO: Yes.

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DR YOUNG: Okay. I have a, the copy of the document in front of me.

As I have said before, it is a document that was issued as a companion.

ADV SIBEKO: The, the document that you have in front of you, is that the DT 1 0177?

<u>DR YOUNG</u>: That is correct, yes.

10 <u>ADV SIBEKO</u>: Now, Chair, that document appears as RMY 23, in file one, page 258. May we proceed, Dr Young? RMY 23, at page 258. Alright. Dr Young, you may proceed. I believe the passages you want, you would want to refer to, are contained in this document.

DR YOUNG: They certainly are. But, maybe I need to say that there actually are two different versions. The one I am looking at is the 30th of September 1997 version. There was a later version, as well. It, maybe, maybe the exact wording comes out of the second version, for all I know. But, you know, as I said a little earlier, we were going to address this one, this document a little bit later. But, at, by way of introduction, at this point, what is relevant is the, is the title of the document. It is SA Navy patrol Corvette combat suite, element costing and description. The document status is indicated on the first page as authorised for issue on patrol Corvette acquisition project. It is sitting at issue two. So, it is, it is not just a draft. Is there anything else you want me to address at this particular stage, before we come to it in more detail,

later?

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<u>ADV SIBEKO</u>: No. We, we can do that at a later stage. But, once the short list, once the RFI's had been issued, there were suppliers or companies that were short listed and a, or requests for final offers were then issued to those companies, who had been short listed. Do you confirm that?

<u>DR YOUNG</u>: Yes. This was issued in respect to the RFI stage and the interested companies responded and, at a later stage, I think, the, the request for offer, whether you, whether it is request for proposal or request for offer or request for final offer, I am not quiet sure at this stage. They were submitted in May, the following year, after being requested, I think, in mid January or February of this year. This particular document that I think, is important, is with regards to the combat suite and not the entire vessel.

15 <u>ADV SIBEKO</u>: Now, the particular document, you are referring to, is that DT 1 0204 in your statement, just below paragraph 139?

<u>DR YOUNG</u>: That is correct, yes.

ADV SIBEKO: Chair, Commissioner Musi, colleagues, the document DT 1 0204 is RMY 24, which appears and it is from page 270. Now, are there specific passages you want to be, liked to be referred to in this document? Or do you want to just give a brief narration of what you need to say, regarding this document?

<u>DR YOUNG</u>: So, we are talking about his document. You are talking about the ECD or the, the request for offer?

25 <u>ADV SIBEKO</u>: The request for final offer.

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<u>DR YOUNG</u>: Okay. It is quite a long document. It is 43 pages I see. I, I have highlighted as, as books marks a couple of things. It might not be everything that needs to be addressed. But, if I open my first book mark and I go to page, let us see, page 5 of 43, which, I, I cannot see your own numbering, from my, my digital document.

<u>ADV SIBEKO</u>: That will be page 274 that is a heading or subheading that refers to the combat suite subcontractor. Is that what you want to refer to?

<u>DR YOUNG</u>: You mean contract, combat suite contractor, you saidsubcontractor.

ADV SIBEKO: Combat suite contractor.

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DR YOUNG: That is correct, yes. Alright. That is a ...[intervene]

<u>ADV SIBEKO</u>: Switch on your ...[intervene]

<u>DR YOUNG</u>: That is correct. There is a section there, headed combat suite contractor and it is stated that it is envisaged that the combat suite contractor, would be a South African industry consortium, wherein Altech Defence Systems plays a leading role, co-responsible for the overall design integration and supply of the combat suite element.

<u>ADV SIBEKO</u>: Now, the document also mentions that the updated version or that that is the request for final offer has included in it, an updated version of the ECD. Could you please just clarify or remind us what the ECD is?

<u>DR YOUNG</u>: Okay. At this stage, it is probably important to, to introduce the issue, is that a combat suite for a surface vessel had been in development, as we discussed yesterday, in terms of Projection

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Diodon, Project SUVECS, the early part of, of Project Sitron. So, it did, it did exist and that was specified to the overseas ship suppliers that that entire combat suite should be costed into their proposals, at a, without visibility into the detail. So, I think, what they call it is the black box that there was a combat suite was stipulated, it was supplied. It would be supplied by the South African industry, co-led by ADS and that it had a specific price ceiling, at that stage. The ECD refers very specifically to a price ceiling, which actually originated out of the May 1999, May 1998 audit of R1.4 billion in May 1998, financial terms. That is an important issue of the ECD. But, the other thing is, the ECD basically describes the suppliers for the combat suite elements, other than ADS, as nominated, nominated subcontractor or nominated companies and that the systems or the products, which were included, are stipulated by the name of the product, like in this particular instance, the IMS with the supplier being C Square I Square Systems. That basically is the base line for, for the inclusion of the ship offers, going forward from there.

<u>ADV SIBEKO</u>: And the contents of what you refer to as ECD, this is what is set out in, or as from your paragraph 133 of your statement. Is that correct?

20 <u>DR YOUNG</u>: The paragraph 1.3, as I am reading, in front of me, it says ship platform requirements specifications.

<u>ADV SIBEKO</u>: Oh. I beg your pardon.

<u>DR YOUNG</u>: Okay. But, that is a, that is an important issue. One of the, when you were asking me to traverse what was important in the, in the specification, one of the referenced documents is in the user

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requirement specifications is a thing, called the ship platform requirement specification, which is addressed here, by my paragraph 143. That quotation, hopefully correctly transcribed from the document, is in front of us and possibly, at this stage it is valuable to read that into the record. As I discussed yesterday, that there were various base line documents. We were talking about base line management yesterday. One of the base line documents is the platform requirement specification. It specifically refers to, about the technology of the data bus and then the [indistinct] of the date bus, being the IMS, information management system. This is referred to as data bus, which is a customer specified dual redundant fibre optic LAN, which stands for local area network, data bus, to the Safenet standard, Safenet, being an acronym for the Survivable adaptable fibre embedded network. It is a US Military, Navy standard. It will be installed at build, to provide for the information management system, IMS, in accordance with appendix A and run in accordance with the vulnerability requirements, stated in, obviously a section called 097/6.

ADV SIBEKO: Perhaps, just to keep everybody on the same page as us, this is what appears at paragraph 143, it is part of RMY 25, at page 315, paragraph 4.2. Now, Dr Young, just to take one step back. You, you were talking about, earlier on, or I direct our attention to RMY 25. You were talking about the ECD. Now, the, the ECD, would that be the document, appearing at the end of one, in your statement, paragraph 137, DT 1 0177?

25 <u>DR YOUNG</u>: Yes. That is correct. That is the one I have open, I

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have had open, in front of me, yes. Sorry, that is what I have, that is correct, yes.

ADV SIBEKO: The ECD, Chair and Commissioner Musi, is at RMY 23, at page 258. At page 2 of the document, which is in the bundle at 259, that is, it is written there:

"The proof of this document is approved for each of the [indistinct] patrol Corvette on the [indistinct] as on the costing and description, for perhaps of assisting invited countries to prepare proposals for the supply of four patrol Corvette vessels and associated logistical support to the SA Navy, in terms of the Minister of Defence letter."

Now, you indicated, during the course of discussing this, this document that the, in, in that ECD there was a ceiling set for the costing of the combat, the combat suite.

DR YOUNG: That is correct, yes, the R1.4 billion. That, that is at
 paragraph 7, under the heading ceiling costs and inclusion assumptions.
 The document is, well my document is at page 4.

<u>ADV SIBEKO</u>: That would be page 261 in the bundle. At paragraph 7, the following is recorded, can you confirm that? Ceiling costs and inclusion of assumptions:

"The SA Navy ceiling cost for the combat suite element is set at R1 470 million, R1 470 million, in predicted April 1998 rands. These costs arise from a recent and comprehensive audit of the combat suite, with all local suppliers providing detailed budgetary estimates to a common base line, against an approved break down and specifications."

Is that what you have already testified to?

<u>DR YOUNG</u>: That is correct, yes.

<u>ADV SIBEKO</u>: If I ask you to turn to the next page of that document, it is your page 5 and it is 262 of the bundle.

DR YOUNG: I have got the page 5.

5 <u>ADV SIBEKO</u>: If you turn your attention to paragraph g, if you could comment on that please?

<u>DR YOUNG</u>: Paragraph g, does that refer to the custom furnished equipment?

ADV SIBEKO: Yes.

DR YOUNG: Well it does, I am quite, trying to think of what the particular relevance is of, to my, to my evidence. But, if that is, that is what paragraph g is about.

<u>ADV SIBEKO</u>: Does anything turn on that paragraph g, in so far as it relates to C Square I Square?

DR YOUNG: Not that I can see. But, there are previous paragraphs that certainly do, that I do want to, wish to address.

ADV SIBEKO: You may do so.

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<u>DR YOUNG</u>: Hopefully the reference is right. Hopefully the reference is correct. It is on the documents, page 3, page 3 in the top right hand corner and, and ...[intervene]

<u>ADV SIBEKO</u>: That will be, that will be page 260 of the bundle.

<u>DR YOUNG</u>: Ja. I am going to leave the bundle, because I cannot read it. I can only look at my computer version.

ADV SIBEKO: It is page 260 of the bundle. You can proceed then.

25 <u>DR YOUNG</u>: Okay. It is under the major heading, background,

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paragraph 2 is entitled the patrol Corvette acquisition, the project nature and scope. The paragraph, which hopefully, I have transcribed correctly, is point 2 a ii, which I read as:

"The combat suite element is the command in control communications navigation centre and effective systems, specify and selected (I want to emphasize) were selected by the SA Navy, compromising of system developed and produced by nominated RSA industry, systems from the SA Navy inventory and three systems we acquired from overseas. There are the primary [indistinct] anti-ship missile and sonar systems."

ADV SIBEKO: Is there any other paragraph relevant to your evidence on this page 3 of this document that you would like to emphasize on?

DR YOUNG: Not on page 3 that I can see.

ADV SIBEKO: Any other page that you can see on the document? Is there anything else you would like to bring to the Commission's attentions? Perhaps if I ask you to turn your attention to page 6 of the document, this is at page 263. There is a heading at the bottom of that page that state's combat suite element description.

<u>DR YOUNG</u>: Yes. That is exactly what I was coming to. It is paragraph 9 and we do not have to read the whole thing. Well, maybe, maybe this actually is important:

"The patrol Corvette combat suite is a modern land based naval combat system with a distributed processing architecture, making extensive use of commercial, off the shelf technology. Processing is intel based, with multi based two interfacing. The language used, being

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mainly ADA and C plus plus and certain applications to the combat suite. (This is the important part) the combat suite consists mainly of substances developed, only developed by South African industry in addition to some items of equipment from the SA Navy, which is the three major [indistinct] systems to acquired from foreign suppliers."

Then, basically that seems to be a repetition in this document anyway.

What the witness was reading, Commissioner Musi, is ADV SIBEKO: at paragraph 9, at the bottom of that page. Now, if I ask you to turn to your page 7 of that document, it will be page 264 of the bundle. You will see, at the bottom there, is paragraph 12, which refers to product breakdown and there are subparagraphs there, a, b and c. Is there anything of any relevance to the issues you are testifying about?

DR YOUNG: Yes. The most important relevance is that it points to these tables, tabular descriptions, which is towards the end of the document. If I also may just take the opportunity, at the very top of this page is paragraph 10, which is entitled foreign source subsystems. But, it as a relevant introduction, which says:

"The RSA has a reasonably well developed Naval combat system industry, across a wide range of products and technologies. As the maintenance and expansion of these capabilities, affords the SA Navy certain strategic and cost [indistinct] advantages. The control Corvette combat suite element is mainly local sourced. As can be seen from the accompanying table (and that is where we are going to be going to) the primary local company nominated to integrate the combat suite element at system level is Altech Defence Systems, ADS, with the major local

suppliers of the subsystems, being messrs ADS Denel, Reutech

Defence Industries, RDI, and Grinaker Electronics LTD."

ADV SIBEKO: Now, the tables that you are referring to, appear at the following page to that document, page, it is page 265, Chair, at 265 and 266. That would be your pages 8 and 9.

DR YOUNG: Correct. That is correct.

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<u>ADV SIBEKO</u>: Alright. That point, what appears in respect ...[intervene]

DR YOUNG: It is quite, it is a little difficult, for even to me to read in, in landscape mode here. Hopefully, you have got landscape versions of it. Well, I think, the most important thing, this is a graphical description of the breakdown of the combat suite, into its various segments, which are basically identified at the third row down. So, you get one block, then two blocks, then a whole bunch of blocks and the very first one, on the left hand side, is called the integration segment and a segment is a notional thing. There is not an actual physical segment. But, it consists of a number of actual physical products or, or systems. From what I can see, the very, very top one is the information management system. At this juncture, it is probably also relevant to point out, for the, to set down for future evidence points, is the fourth column is entitled navigation segment. It is always difficult to refer to things that do not exist and what I point out that does not exist is something called, the navigation distribution system. Maybe I should carry on. May I carry on to the next, next table?

25 ADV SIBEKO: This is that one, appearing on page 9, which is our

page 266.

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DR YOUNG: That, that is correct. Now, here, we have a more detailed textural description of these elements. Under the integration segment, we have, third row down, we have a description of the relevant subsystem, being again the information management system. It's acronym being the IMS. With this description, being a, now I am battling to read a little here, expanding this, a dual redundant fibre optic network. FDDI, being the acronym for the technology being used, specified, fibre distributed data interface. It is a local area network or a LAN. Generity is also a data bus and LAN management for the distribution of all nonvideo data information, full stop, includes FDI network, interface cards, NIX, two interface non-IV systems and the final column is headed, element supplier and against that, for the IMS, C Square I Square.

<u>ADV SIBEKO</u>: And just lastly, in this document, if I could ask you to turn your attention to page 11, which is our page 268. There is, on the first column, something that is referred to there as trackers. What is that?

<u>DR YOUNG</u>: Yes. The tracker is a integrated, mainly radar, but also optronic radar. It is discussed to be as being one of the very expensive and extensively risky systems. We subcontracted to the supplier of that, which we have mentioned before, RDI, Reutech Defence Industries, specifically a subsidiary of theirs, called RRS, Reutech Radar Systems. So, we did the consoles on this, at the same level two. It is a subset of a subsystem and we are indicated there, as supply there C Square I Square Systems. This seems to me to be a note that is written in, in

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handwriting.

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<u>ADV SIBEKO</u>: Yes. That is written in handwriting. Do you know who wrote that?

DR YOUNG: That actually looks like my handwriting. But, by the same point you want to get across, it is not written in, in handwriting. If we look, one, two, three, four rows above that, you will see radar consoles. This is for a different radar. This is for the surveillance radar or the search radar and there, there is again a foreign supplier. But, the local partner would have again, been Reutech Radar systems, doing part of that. We were designated to do the radar consoles for that, that particular as well and there, we are indicated. Not in handwriting, as C Square I Square and if I may say, that was not, not great relevance, specifically to these proceedings.

ADV SIBEKO: Okay.

DR YOUNG: But, if I may, at this stage it is a good, it is a good opportunity, because we have got the document in front of us. But, at the top of my page 10 ...[intervene]

<u>COMMISSIONER MUSI</u>: Okay. Let me see it here.

<u>DR YOUNG</u>: It is a point that I brought up yesterday and this point
that will be coming up again in more substantial detail. May I address that?

ADV SIBEKO: Yes.

<u>DR YOUNG</u>: Okay. Under the command and control element, C square, it is partly where our name comes from, but not from this, not from this document, is a notional subsystem, called the combat

management system. It got replaced by a, an actual system from, from France, from Thomsons SCF, called the Tavitac NT, which [indistinct] to that. But, at this stage, the, the stipulated subsystems were indigenous systems that have been developed under Projects Diamant and Project Callibre, for the Navy's sky craft. At the upgrade for Project Sitron, as well, it was certainly modified, work had gone into them. These were individually known as the action information system and the working control unit. The supplier is indicated as ADS, but in this context it means Altech Defence Systems.

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10 <u>ADV SIBEKO</u>: Now, the evidence that you have traversed, through this document, RMY 26, oh, 23, I beg your pardon, covers the paragraphs in your statement up to about paragraph, the end of paragraph 153. Can you confirm that?

DR YOUNG: That is correct. Maybe I was slightly pre-empted, because I was referring to the ECD, dated 30th of September, whereas I have, this, beginning this about one, a little bit earlier, I saw we were referring to the updated ECD, ja, in paragraph 144. It referred to the updated ECD. But, as far as I know, that these particular references and quotations are identical that I have, I beg for forgiveness, if there are discrepancies. That being said, without having to re-ventilate the whole issue, in terms of the, I think, it is the December 1998 version of the ECD.

ADV SIBEKO: Now, further on, at, as from paragraph 154, you deal with the CMS, which had been developed, under Project SUVECS as we see here, at paragraph 155. Can you just briefly expand on that?

DR YOUNG: Correct. Okay. Here on paragraph 154 and 155, I basically ventilate, what I have actually just said, when speaking to the ECD and its tables. But, it is basically a, a repetition of that. It is an introduction of what a CMS does in paragraph 154. Then, what I talked about, the CMS at this, at that stage, consisting of two actual subsystems, being AIS and WCS, being, being developed for the strike craft under projects, not only SUVECS, but Diamant, Callibre and then later under Project SUVECS.

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ADV SIBEKO: Alright. Now, that, then brings us to your discussion of the revision two, of the Naval staff requirement, dealing with this issue. Can you just take us briefly to that? Now, this appears at RMY 26, as on page 316 of the bundle. In your, in your reference it is MSR needs 1990 ...[intervene]

DR YOUNG: Sorry. That is correct. I have got the document in frontof me.

<u>ADV SIBEKO</u>: Yes. That this document also made certain provisions that are relevant to your testimony, with regards to the combat suite, could you just briefly deal with that?

DR YOUNG: Yes. I probably need to state on the record that this particular version of the MSR I did not, it seems I did not actually have before this Commission started. I took this, this version out of that, of one of the witnesses. I think, it might have been General Steyn, I am not sure. So, this is, this is a version that what was not designated as a DT 1 document, which would have come out of my discovery schedule. But, at that stage, I seemed to have had a different version, possibly an

unsigned version. Whatever, whatever quotations I have got here, might not necessarily have come out of this particular version, of the document that we are looking at now. But, hopefully, paragraph 13 would be the same. So, I need a slight indulgence, to find paragraph 13. Let us see if it is the same.

<u>ADV SIBEKO</u>: Just to assist you, paragraph 13 of this document, reads as follows:

"The onboard combat suite. The onboard combat suite shall mainly consist of the weapon sensor C3I systems in the SADF inventory, or being developed/required under current capital and technology development/retention projects, i.e. the minimal design development and no technology development shall be undertaken, as part of the project. The system shall have, at least, the same above waterline of fire (LOF) and line of sight (LOS) capabilities as that of the current strike craft, in addition to the ASW capabilities, stated above. The combat suite is to be integrated on board in an open architecture, with distributed processing that allows for graceful incremental future upgrading. The project study is to address the cost integration risk and operational benefits of providing a medium to long range fire and update/[indistinct] system in lieu of fitting a skerpion system in its semi-active configuration and the provision of a PDS and or CIWSC."

Is that the same document?

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<u>DR YOUNG</u>: It is certainly the same document, generically speaking. But, the most important thing there, that the words that I have quoted appear there, in the middle of that paragraph that you have just quoted,

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starting with the combat suite and ending with the graceful incremental future upgrading. It seems to be identical.

ADV SIBEKO: And you say, the requirement, as stated therein, was never altered, subsequent to distribution of this document? Not as far as I know. I, I have seen a, a draft version, through whatever, whatever status it had. I do not know. But, what I do know is, in fact, now I remember, this particular document that I have included here, was, was, as evidence document in the evidence of Rear Admiral Philip Schultz. I read Philip Schultz's, Admiral Schultz's evidence, where he also refers to the NSR. He says, even today, in 2014, I think, he testified that NSR is still relevant today. That is why he actually was quoting from it. Just, maybe I can, quote honestly, as far as I am aware that this has never been updated or, or would formally change.

ADV SIBEKO: Now, the thrust of your evidence, with regard to the IMS and the designation of ADS as the South African company, to provide the combat suite. If one follows your evidence, from yesterday, it seems to be that C Square I Square, from the ECD and every other document, that we, that you have referred the Commission to C Square I Square had been nominated to provide the IMS. Would that be a fair summary of your evidence, up to this point?

<u>DR YOUNG</u>: That is correct, yes.

<u>ADV SIBEKO</u>: Now, as from paragraph 157 of your statement, you deal with further assurances to you. Could you just briefly state what these assurances related to?

25 <u>DR YOUNG</u>: Okay. To put it into context, as I mentioned yesterday,

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by early 1998, we knew that Thomson CSF was making very serious bid to acquire ADS. We have seen that from, from some of the documents that we actually traversed yesterday, there are a number of documents that prove their interest, not only in ADS specifically, but Project Sitron and its Corvette combat suite, in particular, including, as we, I think, I said yesterday, the leadership of ADS and the teletech, they are called So, there was, at this stage, it was fairly well known in our industry, as well. There were beginnings to be rumblings or momplings of ADS wanting, not only to replace the indigenous combat management system, with its own, but also IMS. I was, of course, at this stage, you know, when there were still meetings going on, regarding the combat suite. There were still communications going on. At one stage, I think, I expressed, in probably a telephone call to, I think, he was then captain, now Rear Admiral Kamerman, my concerns, regarding the exclusion, for want of a better word, de-selection. Because it was certainly my view, at this stage, we are, we are selected. But, be that as it may, for purpose of this particular point, there are no other contenders, at least, sufficiently on the record. Admiral Kamerman assured me that it was the Department of Defence and the Navy's specific intention to retain the entire combat suite, as it existed, at that stage, in the South African industry and our IMS in particular and the system architecture, which circumscribed our IMS, as well. So, at some stage, around about the 26th of March, he actually faxed me, he sent me a fax, which includes, I think, the ECD itself. But, as well, and there had been a presentation to a couple of different organisations, one of them was the AMD, which

stands for Aeronautics and Maritime Defence organisation. It is a kind of industry, official accredited industry organisation, which had been given a presentation, which had basically included extracts from the ECD. So, that is what this particular point is.

ADV SIBEKO: Now, the facts that you say, you received from Admiral Kamerman, who was captain, at the time, that is the document, you described as DT 1 0193. It is our RMY 27. It appears in file two, at page 344.

<u>DR YOUNG</u>: Okay. I have got the digital version in front of me.

10 <u>ADV SIBEKO</u>: In file two, page 344. It, it, Chair and Commissioner Musi, it is the very first page on the, on file two. It is file number two. I, I have hoped it would be placed before you.

<u>CHAIRPERSON</u>: Advocate Sibeko, maybe just proceed. We will get that file later on.

15 <u>ADV SIBEKO</u>: Okay.

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CHAIRPERSON: We do not have it as yet.

<u>ADV SIBEKO</u>: I am just trying to enquire. My colleagues on the other side do have a file. You, you have the fax in front of you. Is it correct?

<u>DR YOUNG</u>: I do, indeed.

20 <u>ADV SIBEKO</u>: Now, could you just take us to the relevant portions of that fax that you had described, in your evidence?

<u>DR YOUNG</u>: Yes. I think, we need to look right at the very top of the page. It is a pity we cannot actually see it, because I think, the image is, is relevant. But, it is indicated as being from SA Navy, although it is actually from the Department of Defence, the date being March 26 1998,

time there [indistinct], the phone number 012, which is a Pretoria number and a phone number 339 4286. From my memory, that is a Department of Defence, or the Navy head quarters number. I am not sure. It is certainly the 339's. Okay. The covering page is a Project Sitron fax/boodskap to Mr R Young of C Square I Square. In fact, my Cape Town fax number is 021 683 5435. There is also another number. In fact, this seems like the original number, written down here, of 672 4689. I have got absolutely no idea, who that is. It is from Captain JEG Kamerman. It is 33 pages and the comments on the fax page, and I have to pause for a second here. Unfortunately, by me, showing this document and reading it out, I may be accused of betraying confidences. But, unfortunately, in the circumstances which is now 17 years later, it is probably appropriate, in these proceedings to do so. It says:

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"Richard, herewith the info as promised – keep it to yourself that I faxed you directly."

I am pretty sure there was no real problem in me getting hold of this. Maybe, it was the, it should have come from the statutory acquisition authority, Armscor or the DOD itself and not from the project officer. But, be that as it may. Anyway, the first few pages, I am looking at page 2 and it goes down to, it goes down to, let us see, ja, it seems this whole, whole document, let us say 20, 23 pages [indistinct]. Yes. A, not that easy to yourself, but one can, by cross reference, determine that effectively it is an extract from, from the ECD. Many of the reference are the same. But, we are going to have to, the second page, in those

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days it was classified, confidential, written by the, the issue, a presentation called, entitled Project Sitron Corvettes for SA Navy, briefing to AMD, 19th of March 1998. I will say, I would certainly would have been entitled to see this, because I was almost a founder member of AMD, back in 1993 or so. So, why I was not invited to this particular function, I am not sure, but I was not. But, I certainly got this later. Effectively, this is an open presentation forum, very much what we have been talking about, mainly today, also during yesterday. certainly some confirmation, because I am looking at, the statement is called facts, page 4. It is also my pdf page 4. Background, I think, I was correct, when I said yesterday, the project was launched in 1993, while they say, approved in 1994 and as we, we talked about briefly yesterday, two rounds of platform tendering. We talked about Sitron round one, or phase one and round two, they talked about that. Then, their local combat suite development continued in 1995 to 1998 under Project, technology and retention project, following a 1995 deferral of project at political level. So, it is all pretty much [indistinct] of what I said, not that I, I would have, I would have testified, by what I said, from, from reading this, as long as they, right, my evidence preceded this, this, probably precedes my evidence. Important, under the RFO, you see, there it is referred to as an RFO here, not a RFFO. It is page 4, still, TP that means transparency, in the bottom right hand side. includes, the RFO is to include an identical combat suite, which is identical for each of the vessels, as specified by Sam, to a specific budget ceiling cost, provided after extensive costing studies. I will give

you a, I will give you an opportunity to interject there. So, if you want me to particularly bring up.

<u>ADV SIBEKO</u>: If you turn to the next page, which is, perhaps page 5 of the fax and page 348 of the bundle, under position strategy concept, there is bullet point 34, which states:

"Combat suite, mainly sourced from RSA Naval combat system industry."

Is that what it is saying?

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<u>DR YOUNG</u>: That is correct, yes. It is precisely what is said in the10 ECD, as well.

<u>ADV SIBEKO</u>: And if you turn to page 7 of that document, your document, at page 350 of the bundle, it gives a description of the combat suite.

<u>DR YOUNG</u>: Yes. If I may just say, at page 6, I see another relevantpoint here ...[intervene]

ADV SIBEKO: Ja ...[intervene]

<u>DR YOUNG</u>: It says, the second bullet point:

"Combat suite definition, completed September 1998."

So, that is still, that is still coming. Alright. Now, you say, we were coming to page 7 of the [indistinct] points, highlighted here. Ja. I will address them. Under combat suite description, it is talking about 70 per cent locally sourced, by cost. As we know, as we describe, as there were three foreign procured items and they are very, very expensive items. So, even though there are only three of them, they make up, typically, 30 per cent of the cost. 90 per cent sourced, locally sourced

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items of volume and scope and in terms of that, this is when counted the number of subsystems, probably, say 90 per cent of them are locally sourced and not in terms of value. Okay. The next, two bullet points later, they specifically talk about the three foreign sourced item, being the very expensive Anti-ship missile, worth several hundreds of millions, search radar, worth several hundreds of millions and a sonar, worth nearly a R100 million. The next point down, not the bullet point, but two dash points down, it is talking about TFR, technology retention fund at DRDC that is technology development. It is some acronym of defence research and development, ja, it is understandable, technology projects SUVECS and Garfield. I think, Garfield is more or less the same as Project Diodon. I, I am speculating now, but Diodon might be the Naval subsidiary of Garfield. But, they are technology projects. An interesting bullet point is the last one, where it is also part of the justification, for It certainly has a lot to do with defence industrial going local. participation. But, it is said here:

"Local combat suite has significant export potential, as an inexpensive system with good capability in the niche, second and third world market. Some subsystems are world class and are invoking interest, by major navies."

<u>ADV SIBEKO</u>: Now, if you, if I ask you to turn to page 9 of that fax, just to close off on this discussion. It is page 9 and 10 of the fax. You will see that there is integration system in the various columns there. The first column deals with integration system ...[intervene]

25 <u>DR YOUNG</u>: Sorry, interaction segment ...[intervene]

ADV SIBEKO: Yes.

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<u>DR YOUNG</u>: That is correct, with information management system underneath it.

<u>ADV SIBEKO</u>: That is similar to the column that you referred to earlier in your evidence, this morning. Is that correct?

<u>DR YOUNG</u>: I am pretty sure, the diagram is identical.

<u>ADV SIBEKO</u>: And just on the next page, page 353, your page 10, it says, Navy, SA Navy patrol Corvette combat suite participation. Could you just briefly run through that?

DR YOUNG: Well again, whether or not, it gives us exactly the same table. But, again, integration segment, the element is information management system and the element supplier is this, is C Square I Square. Yes. It is on my pdf, page 8, there is also an architecture diagram.

15 ADV SIBEKO: That will be page 351.

DR YOUNG: This, this is a diagram of the combat suite architecture, as it existed at this stage. We are going to come, a little bit later, when ADS proposed various different architectures, and they are designated in slides as well, called CS 1 to CS 7, CS 7 mod one. Obviously they are only, that annexure exists in a later point of time, as it seems clear to me, at this early point in time, this particular diagram has no designation, at all. So, it was the only one in existence. Although it is pretty hard to read, I will point out that the very thick black horizontal line, with the vertical lines, connecting to various elements, that is a typological depiction of the IMS. This is actually a, a diagram of the

combat suite and its architecture, at this stage, connected an integrated use of the IMS.

<u>ADV SIBEKO</u>: I have read ahead of you, in the facts and it does appear that the information contained here, seems to accord with what you have stated, in your evidence and as appearing from the ECD. Is there anything further that you wish to add, with regard to these particular facts?

<u>DR YOUNG</u>: No. I do not think so, at this, at this stage.

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<u>ADV SIBEKO</u>: Chair, would this be a convenient time to take the tea adjournment?

<u>CHAIRPERSON</u>: We will adjourn for 20 minutes. Thank you, gentlemen.

(COMMISSION ADJOURNS)

(COMMISSION RESUMES)

15 **RICHARD MICHAEL MOBERLEY YOUNG: (s.u.o.)**

ADV SIBEKO: Dr Young, just before we adjourned, you, you were testifying about the facts that you had received from Captain Kamerman, in the context of the further assurances that were made to you. Will you, then, just finalise that discussion in, in the manner that you have set out, at paragraphs 158 and 159 of your statement?

<u>DR YOUNG</u>: Yes. As I have said before, there were a number of interactions from him, mainly telephonic. But, in paragraph 159, I refer to a meeting of the 9th of July. I do not think, I have actually annexed as a, the minutes of that meeting, but they do exist. But, there were assurances. I remember attending that meeting myself that an

Indigenous South African combat suite remained part of the project. There were all these encouragements, as there were at, basically every formal three monthly meeting, for the members of the local industry, to continue with what we were doing, in terms of development under Project, whether it was Diodon or SUVECS. The, the message that we got through is, bear with us, guys, when this thing is going to happen, eventually, when it does happen, we assure you, you will be part of it.

<u>ADV SIBEKO</u>: Alright. And you say GFC then, submitted its offer around May of 1998?

10 <u>DR YOUNG</u>: That is correct, yes.

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<u>ADV SIBEKO</u>: And in its offer, it set out, it proposed who the contractors were going to be, the primary contractor, with regard to the, the vessel as well as the combat suite. Do you confirm that?

<u>DR YOUNG</u>: Yes. They indicated there, their combat suite supplier as ADS and basically, as I have said, maybe use the words, not of their own volition, because that was, had been indicated in both the ECD and in the, in these requirement specifications.

<u>ADV SIBEKO</u>: As from paragraph 162, you talk about categorisation of contracts. What is the relevance of this?

DR YOUNG: Okay. This particular context right now, it is an introduction, to an important issue. I have to say, these categorisations, especially, the differences between b and c, may have formally have come later. They are relevant at that slightly later, at that point in time, to these proceedings. But, certainly what is important and is relevant, at this particular point in time, as I have said before, the preferred supplier

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that had been, that, that was, that resulted out of this process, was the German Frigate Consortium. But, they were only going to do the platform. That was always categorised in category A. Then, the combat suite was going to be done by this group of South African companies, possibly co-led by ADS and that would have been the combat suite. Later, the combat suite got categorised into category B and category C. ADV SIBEKO: And you say at paragraph 163 that the JPT classified the IMS as a category C subsystem. What, what is the relevance, thereof?

DR YOUNG: Well, before, before ADS re-categorised the IMS, as part B, let me, okay, my, my understanding was that once the categorisation into B and C were, were done, then IMS was considered as a part, as a part C. Therefore, risks were not applicable to it. But, when the whole change of architecture occurred and we will come to a change of architecture occurred the IMS would have actually be more part of the combat management system, rather than the combat suite itself. The, the combat management system, specifically the Thomson TNT one, was definitely categorised as, as a category B. Then, whether directly or by, by results, by inference, the IMS then became category B. Therefore, attract that enormous risk provision, which eventually was the, the cause of our B selection.

ADV SIBEKO: Thank you. Now, as from paragraph 164.4 up to about 171, you discuss ADS and its relationship with Thomson CSF and [indistinct]. Will you just take us through that, just quickly?

25 <u>DR YOUNG</u>: Yes. Okay. Just, just remember that many of these

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things or these points are coming up here, as relevant to introduce them for, for the context of what is coming up, later, and specifically involving the conflict of interest, which involves [Indistinct] Holdings and then Thomson CSF and ADS and various other things. So, we will, we will, I will get to more detailed discussion of these, these points later. But, by way of introduction, it is necessary, at this point, to put on the record where, where things were and how things later happened. I have mentioned a couple of times, before the, at this point in time, the company that had been called UEC Projects, became Altech Defence Systems (PTY) LTD, with the acronym ADS. Okay. Owned by, owned by ADS. As I have also said before, once Project Sitron and the, I would say the strategic defence packages in general, started getting very serious, certainly from, I think, it is the 23rd of September 1997, in terms of the RFI's, Thomson started making all of the moves to acquire Altech Defence Systems, for the very purpose of gaining a work share in the Corvette combat suite. That is the, that is the reason for this particular part of the testimony. So, despite all of the interactions that have been actually going on and I know from the Schabir Shaik trial that these things, these things actually initiated much, much earlier, even in 1992. So, in the 1994 time frame, there things seems to have been initiated, but, but practically, Thomson CSF started acquiring ADS in a particular [indistinct] strategic and that, by that we mean a phased manner or by phased manner, which I mean strategic. They started, by doing it, maybe as, also, probably for two reasons. One, to not overly take too much risk, by acquiring the whole thing, until there was a contract in

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place, but, also, by only acquiring 50 per cent in the beginning, they could effectively say that ADS was still a South African company, even though it was 50 per cent owned by Thomson CSF of France. So, in May 1998, beginning of May, shortly before the submission to the GFC, that would, that was, I think, done the 11th of May, but it was rather at the beginning of May, Altech sold 50 per cent of its shares, so that is the equity plus one controlling share to Thomson CSF. Okay. They do not mention a particular date here. There are, there is plenty of documentary record, but it is very laborious, it is unnecessary to burden proceedings with all of it, unless it is necessary. But, the documents I have got refer to the 28th of April. I think, that is when the documents were signed, becoming effective, you know, I think, in May, on the 1st of May. Okay. By way of introduction, Thomson CSF is a French company, actually at least as a [indistinct] a multi national company. But, certainly, they originated in France. At the beginning years, most of it was actually owned by the, the French government. There has been, but when France joined the European Union, the European Union forced government owned companies to divest themselves of their government ownership. So, there is private ownership, as well, in Thomson CSF, these days. A person, whose name will come up in these proceedings, as he has, in other proceedings, criminal proceedings is, was, as I said the, the delegate of Thomson CSF Southern African. Then, he transferred, to become the CEO of ADS. Quite what exact the reason is, but there are two South African incarnations of Thomson. One is called Thomson CSF holdings in Southern Africa, not South Africa (PTY)

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LTD. There is also Thomson CSF (PTY) LTD and one of them became the official equity holder of, of ADS. Not directly, because at the beginning, the, the shares were transferred to Thomson CSF of France and it is called S.A. which stands for society anonym and then they got transferred back to the South African company. It is in that company, in which Nkobi Investments and later, there is a group called Nkobi Holdings. It got its effective share holding in, in ADS via, via these companies. I am showing here, this is going back in memory now, 10 per cent of the shares in Thomson CSF Holdings (PTY) LTD and 30 per cent in Thomson CSF. Oh. Just by the way, these companies are, changed their names to Thint. I am not quite sure what they are called now. I do not think they are called Thint anymore. Okay. Importantly, at my paragraph 168, the, the original relevant company in the [indistinct] was called Nkobi Investments. But, later, a company called Nkobi Holdings was, was formed and it was the holding company of lots of different relevant subsidiary companies, when I say relevant, not so much in these proceedings, but in the greater scheme of things. There, there were a lot, about half a dozen companies there, involved in the Armsdeal section. Anyway Nkobi Holdings was directly controlled by Schabir Shaik. He also became a director of Thomson CSF SA (PTY) LTD from the date of its incorporation, way back in July 1996. He held that position, certainly in the relevant period of these, these proceedings until he was convicted of corruption and fraud and by virtue of that, had to give up his directorships and in fact, even his equity in both ADS and Thomson CSF. I am saying here, at paragraph 160, the idea would be

to, for Thomson CSF to acquire the initial shareholding and 50 per cent in the controlling interest, up front, basically to put itself in a position to be able to, to get the Corvette combat suite contract. But, eventually what happened is that a, more or less a year later, it was in March 1999, it, it acquired the balance of the share, if I say it was in March, it was in February 1999 Thomson CSF acquired the balance of the shareholding of ADS from Altech LTD. Then, as I said Thomson CSF held the whole lot originally and then they transferred 80 per cent of the shares in ADS, transferred and the actual Nkobi share holding in ADS was not 100 per cent direct. It was indirect, via Nkobi Holdings and then Thomson. Then, they owned an affective, I think, 20, 20 per cent, 20 per cent of ADS.

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ADV SIBEKO: Now, after that discussion you have presented, regarding the relationship between Nkobi Holdings, ADS and Thomson CSF, you deal with the evaluation bids, in particular the, the one, dealing with the GFC bid, as from 172 to about 181. Can you just take us through that in respect to it?

<u>DR YOUNG</u>: Okay. If I may, as I have just, there was one last phrase of the preceding paragraph, which actually is relevant. I see I am now, in 172, I am referring to Shamim Shaik, the brother of Schabir and we are also going to be talking about conflict of interest. Once Nkobi Holdings became an effective, albeit indirect equity holder of ADS, Schabir Shaik was appointed as a, an alternate director of ADS. But, certainly, there is one of the legs of the, these declared conflict of interest with, with this ownership. Okay. We are going up to the theme,

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entitled evaluation of bids. By way of introduction, Chippy, we call him Chippy, not Shamim, from now on, in 1995, the very, very early stage, joined the DOD and was involved in various of its activities, which proceeded the strategic defence packages. As you know we, here we say, we discuss the defence review and one of its outputs, which led to the SDP's was its so-called force design, which, it formed as to what was to be purchased, including these, these frigates or patrol Corvettes. In May 1998, Chippy Shaik was appointed as the Department of Defence's Chief of Acquisition. It is my understanding that he had been designated to take over this point, at a significantly earlier point in time. In terms of official responsibilities, kind of, I would say, in my view, government idea of kind of fiduciary responsibilities. He was the fund manager of the special defence account, from which these SDP's, through the Corvette Project Sitron were funded.

ADV SIBEKO: Now, Dr Young, there are colleagues at the back of the auditorium, who say they are finding it difficult to follow the evidence, because you are speaking softly. Could I just ask you to raise your voice please?

<u>DR YOUNG</u>: Okay. I think it was actually, the mike was a bit further away than it should have been. Anything you would like me to repeat there? Or should I carry on with the ...[intervene]

<u>ADV SIBEKO</u>: I am sure you can carry on, Dr Young, [indistinct].

<u>DR YOUNG</u>: Okay. We talked about the GFC's closing offer, in response to the request for final offer [indistinct] in middle of May 1998. Once all of the offers, then, I think at this stage, we are talking

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about offers from four, four short listed companies. They were first considered by a joint Department of Defence project team, Department of Defence and Armscor team. Maybe not officially at this stage, they certainly were a joint project team with a small j, they later, maybe later became officially the joint project team. There certainly was a joint, a joint team. In those early days, prior to the, the selection of the preferred suppliers, which happened in, in September of 1998, the body, which considered the recommendation of the project teams was one, finally called the Strategic Offers Committee. It was preceded in some of the documents and some of the previous witnesses talk about a management committee and the, or the IOMC, I think it is, International Officers Management Committee. But, in my documents, I refer to it as, as SOFCOM. The joint project team was led, at that stage, by then, Captain Kamerman. At this particular stage, at least it did not exist, but Shaik was the chairperson. I actually think I made a typo here. The chair should have actually been the co-chairperson of, of SOFCOM, which is relevant for the moment.

<u>ADV SIBEKO</u>: You, you further mentioned that the GFC failed to meet the DOD requirements, with regard to the DIP issues. Can you just take us through that?

<u>DR YOUNG</u>: Yes. We are going to come to that, into a bit more detail. But, it is to suffice at this stage, at this, this early stage, it is more or less the second round of the RFI stage, there were non-negotiable, pre-qualifiers to make the next round and one of them was involving this minimum DIP participation requirements. The GFC who eventually won

this whole project, or at least, the platform part of it, should have actually, strictly speaking, at least, according to Armscor's own legal opinion that it received, from its legal division that the GFC should actually have been excluded, on this basis, at this stage.

5 <u>ADV SIBEKO</u>: We do know, despite that failure to comply with the minimum requirements, the DIP requirements and it proceeded to be qualified and was eventually awarded the contract.

DR YOUNG: That is correct, yes.

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ADV SIBEKO: In paragraph 181, you refer to an approval given on the basis of an amount, the total cost of the programme. Can you comment on that?

DR YOUNG: Yes. It becomes very significant here, for evidence that I am going to lead a little later on. At this stage, the, the government effectively selected the German Frigate Consortium's Meko 20 AS frigate and of course, there was still another year to go, before contracts, a bit more than a year, for contracts to be finally placed, after a year's, of negotiation failures. But, when the government, the Cabinet declared the GFC as the preferred supplier, it was done on the basis of a ceiling price, for the entire contract, which was as close as dammit, in round figures R6 billion. For some reason, it is R6.001 billion and the Corvette combat suite component of that, making up the R1.4 billion, in April 1998 prices. We, we traversed that in the ECD, minimum costing and description. There are documentary records. When I start doing my price calculations, I work on a round, a better price of that R1.47 billion for the combat suite, could justify the, the, equated to R1.9 billion

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in December 1998. We actually saw, I saw evidence of that in ADS's own documents, their internal memorandum, where they declared that there were no unacceptable risks. They referred to a price of R1.885 billion, which is as close as dammit to R1.9 billion. I say I worked that out independently.

<u>COMMISSIONER MUSI</u>: Can I, can I just interrupt? Paragraph 177, what is the basis for this information that the German Frigate Consortium bid failed to meet the minimum DIP requirement? Is there any documentary basis for that?

10 DR YOUNG: Yes. There are actually two things of which I am aware. The most import of, of which is a very comprehensive document, which I, myself and my evidence leaders have considered as being an on the record document. That is the, the JIT's final report. We did not want to belabour the proceedings with a 384 page report that, at least, we hope that is before the Commission. That issue is fairly well dealt with, in that 15 document. Of course, another document, okay, I certainly refer to that document, including by, by its name in my witness statement. Another document, which I do attach, as a, as a document, in my evidence bundle is the predecessor of the final court, which is the draft JIT report, all, I think, 801 pages of it. But, that is unfortunately, being copied 20 ...[intervene]

<u>COMMISSIONER MUSI</u>: I cannot hear clearly. I cannot hear.

<u>DR YOUNG</u>: Okay. Was I asked just to, just to speak more into the mike, or just, just stop talking?

25 <u>ADV SIBEKO</u>: Just speak up.

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DR YOUNG: To speak up. Okay. So, I have talked about the final JIT report, as well as the draft JIT report, which has been tendered, as part of my submission. As far as I can remember, it is dealt with in that. I have also referred to here, as Armscor being advised, by its legal division. I will, I will, from my own memory, in my particulars of claim, which I talk to you yesterday, my, which was obviously drawn up by my legal team, that refer to that document, being in our possession. So, I am sure it exists, except, for the purposes of these proceedings, I was not able to find that, but certainly, as far as I am, in my view that the judge in his final report, it is sufficient to, to prove this particular point.

<u>COMMISSIONER MUSI</u>: I still do not understand. The legal advice document, do you have it?

DR YOUNG: As I have just said, my particulars of claim, drawn up by my senior council in 2003, refer to Armscor, was advised by its legal division and there were in brackets, we, we have a copy of this, of this opinion. I am unaware, I personally, at this stage, 12 years later, I am unaware of where it is and I have not had time to look for it. I have not bothered, because I did not think it was necessary, because it is adequately addressed by the JIT final report.

20 <u>COMMISSIONER MUSI</u>: Thank you.

ADV SIBEKO: Commissioner Musi, perhaps it would be of some assistance, if I may point, or direct your attention to the evidence that was presented, before the Commission, by an official, who dealt with the DIP evaluation, that was Mr Barry De Beer. His evidence appears or, with regard to this issue, appears in the transcripts as from page 4630,

right to about 4669. That is, that is where the discussion about the GFC evaluation bid and its failure to meet with the DOD's minimum defence industrial participation requirements is dealt with, together with an opinion that was prepared by, I think it was Mr Piyega from Armscor, regarding the issue.

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<u>CHAIRPERSON</u>: Thank you. Then, I just want a bit of an explanation, as far as 178, paragraph 178 of Mr Young's statement is concerned, where he says that SOFCOM selected the GFC. I am not quite sure, what does he mean, when he says that SOFCOM selected GFC. Can he give us some more clarity on that issue?

Okay. We, it is my understanding that the joint project DR YOUNG: team did the evaluation of the four different countries, actually five different frigate contenders and there is a report that is on the record, of these proceedings. I refer to it, as well. That report, which actually recommended the Spanish, the Spanish for that. But, that report went to the effective next higher level, which was the Strategic Offers Committee. The Strategic Offers Committee not only considered things like military value and, but also considered thing like defence industrial participation and national industry participation. It was the Strategic Offers Committee that used the famous formulae, the best value formulae, the dividing one and the additive one and from that exercise, done at the SOFCOM level, they determined that the GFC's one bid for the Meko 200 AS was the best, the best value. They, they made that determination and in the greater scheme of things, they had to make that recommendation to the next, relevant high body, which I think, it

says the AAC. I have not referred to minutes, of the 13th of July. But, that is my understanding is that was when the AAC adopted SOFCOM's recommendation, regarding the preferred supplier of the Corvettes.

CHAIRPERSON: Okay. Thank you.

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ADV SIBEKO: Alright. Having dealt with the evaluation of the GFC bid, amongst others and its recommendation and award, you then deal with issues, relating to the user requirement specification, regarding the combat suite, as from paragraph 182. Could you take us through that? Okay. In the context, it is probably fairly relevant to DR YOUNG: point out that that date that I have mentioned there, the 10th of December 1998, is actually very late, in the day for a project that had actually started in 1993 and then, round two in, in September 1997. There was very good reason for that. It is because, as I have said before, the Corvette combat suite had a, was really in full scale development and an extremely mature base line, for that combat suite. That base line consisted of a, what we call a requirements base line. It is what the Navy and Armscor wanted and a functional base line and what was actually going to be implemented. These were documents that were, were, had been written, as a team effort, by the industry, under the kind of secretarial endeavours or efforts of the co-ordinating body, African, or some other African at that stage, Altech Defence Systems. They were called the functional specification and there was a compelling document, called the system design document. were, they were written, I want to say, edited, in editorial function, rather, being changed by ADS and I think, they even might have had ADS logos

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on them. It was considered inappropriate that the company's specification should be actually designated, as part of the, whether this, one would call it the negotiation base line or the functional base line or [indistinct]. So, at a very late stage, I think it must have been in that quarter or the quarter before, we are still talking about the same mid 1998, up until this stage. The Navy then, basically wrote themselves, of course, using a lot of, a lot of input from all the companies involved, the contributors, they wrote a very important document, called the SA Navy patrol Corvette combat suite requirement specifications, the DRS, which is based on the combat suite and provided this to the GFC, with the GFC having been declared a preferred supplier for the entire combat vessel. Their sub-supplier at this stage being ADS, so they would then negotiate with ADS, based on the requirements issued, by the Department of Defence. That is, that is the import of the URS.

15 <u>ADV SIBEKO</u>: The Corvette combat suite user requirement, or actually common specification that you are referring to, is it the document DT 1 0315 on your statement, which is RMY 28?

<u>DR YOUNG</u>: That is correct, yes.

ADV SIBEKO: Now, RMY 28 is in file two. It starts at page 365. Now, before I take you to specific passages in this document, RMY 28, the combat suite requirement specification, is there any passage that you would like to make reference to, which is relevant to what you are building up to?

DR YOUNG: Maybe there is, let us say a long document. It is 269 pages. I do have a certain [indistinct]. Sorry. It is a long document, it is

269 pages. I certainly would not, it is a very important document. A lot of the contents are important and quite a lot of them are relevant to this issue today. But, I am not very intent to go and cherry picking here. I will restrict myself to the, firstly, to the bookmarks that I have indicated here, as being important and relevant. Then, also, the, some that are, that are, come from memory. A very important part of my evidence that I have all these documents to jog my own memory, I cannot actually remember the content of all of them. Okay. I have [indistinct] paragraph 1.3, which is pdf page 13. So, it will be probably the 13th page in your, in your bundle.

ADV SIBEKO: That would be page 377.

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<u>DR YOUNG</u>: Let us start at the top, 1.3 document aim. I just want you, just such a, unfortunately, it is a long sentence. But, I will read it:

"The document aim, the primary aim of this document is to describe in short the Corvette combat suite performance, design, logistic and associated hardware elements. Required [indistinct] required by the SA Navy, including budgetary allocations."

There are appendixes here, where they include money relating to the allocations of these hardware elements that are acceptable to the SAN. So, if the Navy were to establish a base line for the acquisition of four patrol Corvette vessels and associated logistics sought by the Navy, this would, and the base line then comes up, this, this document is obviously an important part of the requirements base line. It would, by establishing a base line, then obviously, this were to in view to establishing a, a contract base line, but based on this requirements base

line.

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<u>ADV SIBEKO</u>: Is that the bookmark you want to [indistinct]?

<u>DR YOUNG</u>: I just me some time to gather my own wits. We took, with the element costing ECD document, we talked about, I think, before tea we talked about integration segment and the IMS, being part of it. Okay. Here we have the IMS, described in far more detail. This is marked pdf page 114. It is document, the document itself is page, also on 114.

<u>ADV SIBEKO</u>: Chair, it is page 178 of the bundle.

10 DR YOUNG: Maybe, at this point, it is relevant to, to say, to note that I was asked and I replied, with relevance to the Naval staff requirement. My understanding is that that document, although it was drawn up years ago, is still, it is still the base line document today, for this project. My understanding is, is that this document is still the base line document for this project, unaware of it being formally changed, to reflect anything 15 else. Anyway, under paragraph 7.1, there, it is entitled, if you make an [indistinct] it starts off with the function and description and what is important to, for me to show is that the IMS, to which we had been referring and to which I will carry on referring, is the IMS from CCII Systems. It is certainly not the one referred to, in a document by the 20 company Detexis, which we will come to. Anyway, what, IMS should do is to interface all of the combat suite, that is the, all of the combat suite, the combat suite and not the combat management system. segments, you shall remember that the combat management, at best is 25 a segment, in fact, it is only a part of the segment. It is a part of the

commander control segment, via a local area network, derived from the Safenet standard, nil standard, the official number of it is nil standard, due to 04A, the A designated actually, Safenet 2. Safenet meaning, as I have said before, survivable adaptable fibre optical embedded network, with Safenet 2 specifying, stipulating the FDDI technology. It goes on to say that IMS should be based on the alternate path FDDI, AP FDDI, to [indistinct] as defined in the Safenet standard, referred to a figure below and there is a figure below. I do not want to belabour ...[intervene]

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ADV SIBEKO: Is that the figure at page, your page 116 and our page 480?

<u>DR YOUNG</u>: Precisely. This figure affectively describes the IMS only and a way into connection there is a depiction of not only the elected bus typology, or LAN technology. But, that is what they call the alternate path. What they mean by alternate path is there are many different routes for the information to flow from beginning mode to end mode, even if there is, intermediate ones have been, are no longer in existence, due to battle damage. So, there are very good reasons for choosing this typology. I do not think we need to belabour ...[intervene]

<u>ADV SIBEKO</u>: Ja ...[intervene]

<u>DR YOUNG</u>: The proceedings with all the technical, the very technical details. We will come back to it very, very briefly, when there is an analysis of what the IMS would do, compared to the Detexis done at [indistinct] data bus and a couple of these things are relevant in the context of one being able to do them here and the other one not being able to do.

ADV SIBEKO: Ja. Now, where you discussed the URS statements and specifications in paragraph 184, these are contained in your next document, DT 1 0361, which is our RMY 29. Do you see that? And, and these are basically the technical aspects that you say, you will deal with later, in your evidence.

<u>DR YOUNG</u>: Yes. That is correct.

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ADV SIBEKO: Alright. May I just point out, Chair, that RMY 29 is located in file three. We will deal with that in the formats of time, as indicated by Dr Young.

10 DR YOUNG: Okay. And then, now, we do have two different versions. But, I think, I will decide to point out certainly, referring to my bookmarks here, that other, we, were are moving on to, from the technical parts, but from the non-technical part, as I did mention earlier, there is an appendix to this document. They go down to appendix J's and K's and L's and all that kind of stuff and certainly, some of the versions of this 15 document, I received and that I had, all of those, those appendixes at the end. But, what I want to point out is that, whereas the ECD had referred to the IMS and its supplier, C Square I Square, as the nominated or selected subcontractor, by this stage, the same selections were made. They are identified in one of the appendixes, J or K or 20 whatever, not as nominated contracts, but as candidate suppliers. But, important that there are no other candidates, in fact, I think, I can remember in my mind's eye, is there are also contact details, of the There are the contact details and the indication of the suppliers. 25 supplier as C Square I Square and there are, are no other candidates

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identified.

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<u>ADV SIBEKO</u>: You say that, in the documents, provided to you the appendixes did not have the information.

DR YOUNG: No. I said, we, we received various versions. In fact, the one that we have just gone on, we are going onto now was, ja, if you can see, in my own handwriting, the very, very top page, it was supplied by ADS. So, the first, the very first version was the previous one. But, once we start getting to the nitty gritty of, of ADS asking us for quotes, they are asking us to quote. So, they supplied us this version, with some pages missing and although, there is a, there is an index, which, from what I can remember, it does refer to. Then, I do not think that the initial versions of these, including this one, the annexures themselves, were provided. But, later, under [indistinct] a document was, a version of this document was furnished to us and I can remember from there, there were, the contents of these annexures, I think, I think, the first versions had the covering page of the annexure, but not the actual, the contents themselves. But, I can remember specifically three things, one, the identification of the IMS. One, the identification of the supplier, being C Square I Square, the other one, being the contact details and the last one, the, the, and this one, I cannot remember actually. My mind, it does not [indistinct] to me, but there are indications of what actually really results from the government itself, that there are indications of, of budget allocations, as well, in one of the, the appendixes.

25 ADV SIBEKO: But, just to make that point, if I may refer you to that

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very document, RMY 29, this would be the combat suite requirements, the, the second issue. Chair, that you will find in file three, it is the very first page.

COMMISSIONER MUSI: So now, three?

5 <u>ADV SIBEKO</u>: Yes. It is page 634, file three. Now, once you have found that document, RMY 29 in file three. It starts at page 634, can, can I then ask you to page, to turn to page, Dr Young, it will be 245 on your document. On our document, it is page 875.

<u>DR YOUNG</u>: May I just confirm, we are talking about the first issue, orthe second issue, at this stage?

<u>ADV SIBEKO</u>: It was the second issue. That would be the 10th of December 1998. Is that correct? It is dated, sorry, I beg your pardon, 5 March 1999. On your document it would be DT 1 0361. Do you have that document?

DR YOUNG: No. I, I have actually, it seems as if I have got both.

Well, actually, I am not sure, because on the front pages it says, date original issue 10th of December. The one that you refer to, is that the one, the one, you now indicate, as being supplied by ADS?

ADV SIBEKO: That is correct. That is correct.

20 DR YOUNG: Okay. That is 29 [indistinct].

ADV SIBEKO: Ja.

<u>DR YOUNG</u>: Okay. I have just opened, I just to opened them up. It is 250 pages long and you want me to go to page, your page?

ADV SIBEKO: 87, it is my page, it is my page 875, your page 245.

25 You will find it is appendix I, a list of candidate suppliers.

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<u>DR YOUNG</u>: Yes, more or less, precisely. Appendix I is list of candidate suppliers and actually, this particular version, it says this page intentionally left blank. Information pack overleaf.

<u>ADV SIBEKO</u>: Were you ever supplied with that information pack that is supposed to be overleaf?

<u>DR YOUNG</u>: Certainly not in its, in its entirety. I think I have seen this type of page, where there is a one page, with C Square I Square. It is the contact details, the address and telephone numbers.

<u>ADV SIBEKO</u>: Now, is there something you want to add?

DR YOUNG: Yes. And the same, more or less, yes, and the same more or less applies at appendix J, which is element costing. This, I do not think I have ever seen, it, it, in this incarnation. There is another spreadsheet, which I think, came out of an almost identical exercise, ag, maybe next phase, there is a multi, multi page spreadsheet. But, there is clearly an information pack overleaf, under the heading of appendix J, which has got the element costing.

<u>ADV SIBEKO</u>: Now, having gone through these two documents, this will bring us to your discussion, at paragraph 191 of your statement, relating to change in architecture. Would you like to take us through that?

<u>DR YOUNG</u>: Yes. We have traversed a little before, when I talked about Thomson CSF and one of its subsidiary companies called Detexis, which was initially owned by Thomson, but became owned by Thomson, I think, 100 per cent, during this, this period, at least. But, Thomson was a, or at least, it is one division, so they are a very big

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defence company and one of its divisions is called CNCS, Central Naval Combat Systems, and it had a product, called Tavitac, yes, they, it was referred to in a French document, called TNT, it is standing for Tavitac NT. Anyway, it had a Tavitac combat management system and that is what I have said, was the reasoning behind Thomson, wanting to require ADS. To be able to sell its, not only its combat management system, but many of its other related products, to go into a combat suite, a larger combat management system can be considered as a level three system, or subsystem. The biggest system is a level four combat suite. As I have said that Detexis was, became a company in the group. It had developed a thing that they called the dire search zone. I am not quite sure what dire search zone means, but it is a data bus that they had fielded a previous incarnation of it, on a, on a French aircraft carrier. So, they were keen to sell that same thing, although, by the time, it was fundamentally different, to what they fielded on, on our four frigates. As I have said. Thomson CSF required the share holding for this specific goal, the share holding in ADS, in order to, to sur-plant the indigenous combat management system, consisting of the AIS and the WCS or WCU. By virtue thereof, displace the information management system, as I said earlier. Effectively the subsystem, the combat management system, it connects to the rest of the combat suite. So, although it could have been architect to, it would still require the IMS. It certainly would have complicated things and, for them. So, effectively, it was a opportunity to dispense with the IMS completely, both as a subsystem and as the binding element of the integration of the entire combat suite.

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<u>ADV SIBEKO</u>: Did this Tavitec CMS comply with the URS that you had, you have referred to, in your evidence?

DR YOUNG: That is something I cannot say that I have considered in great depth, very recently. So, I will talk from memory. I think that the, the Tavitec CMS, based on Tavitec ENT, but re-engineered, under Project Sitron, specifically for South African Navy, from translation from French into English and those things, it is actually an extremely comprehensive system. So, I cannot think of, technically, of where the Tavitec CMS might have been deficient. But, it is more like the opposite side of the coin, is that the, the Tavitec NTN that cost them R353 million, whereas the AIS and WCS was meant to cost about R96 million. So, I do know that it is a, it again, in my own view, as an expert is that the combat management system, based on the Tavitec NT is probably a bit more, than was required, by the South African Navy, for this particular [indistinct].

<u>ADV SIBEKO</u>: Now, in, in terms of the architecture that was specified in the URS, how did it compare?

<u>DR YOUNG</u>: Well, where the URS existed, in, through its, both, both of these versions, it only referred to a combat management system and the IMS. So, the URS itself is always incorrect, as far as I know. As far as I know, it has not been changed. But, actually, what did happen was once ADS started bidding, exclusively, to supply the combat suite and especially, when it was going to be changing the congruent elements, including the AIS and WCU and IMS, it worked its own specification, more or less as a kind of a daughter to the URS. In terms of it, they got

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the, the negotiations and the functional base line, the URS basically was, to all the intents and purposes superseded. So, the, what actually basically happened was never a diversion so much from the URS, but it conformed with what was called the SSS, which is the ADS document, it is on, with some ADS stationery, it is certainly with the ADS logo on it. The new architecture and the inclusion of it, the Tavitec combat management system conformed to that. But, where the, the differences are, is that the SSS, if I may call it then, is not congruent with the URS.

<u>ADV SIBEKO</u>: And was the Tavitec then offered, as an alternative, to what was required, or specified in the URS?

DR YOUNG: It was never really offered as an alternative, not in my view. I am not saying that my view is 100 comma zero per cent. My view is restricted by the documents that I have seen. But, what I have seen is explanations in Project Control Board meetings, presentations done to the Project Control Board and to the Naval Board of why the prices increased from R90 million, or R96 million for the indigenous AIS and WCU to the Thomson, Tavitec NT. So, it is not as though it, okay, that there was, that they were offered as alternatives. It was offered, it would have, it was not offered. It was selected or designated, by the DOD, at the beginning, I am talking about the AIS and the WCU and that is on the, on the record that we have seen. But, by the time ADS and Thomson, it came to an offer, what they were offering, it did not include the original one. So, they only included the, the French version.

ADV SIBEKO: At 196 of your statement, you refer to alternatives that were offered, by ADS at a meeting that was held in Mount Edgecombe.

Could you just take, take us through that?

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DR YOUNG: Yes. Maybe to put it into context, yesterday we referred to the French facts from Olivia Hosea and where he refers to his [indistinct] CS and wanting his information after Thomson's presentation to the chiefs of staff. Anyway, my understanding of it is that, at the presentation was done, probably the day or the night before, this particular meeting, held in July 1998. Unfortunately, for some reason, I have not included that document, as a relevant document. I think, I am pretty sure it is in the discovery schedule. But, I have not referred to it as a, as a hyperlink here. But, then, it, here is a particular date and it is a minuted meeting. I, I remember that meeting extremely well, because if I have to say that my travail was when the Armsdeal started at a particular point in time, this is the point in time. This is the point in time, this exact point in time, where I got the first idea that things were not going right and would not be, in fact, we might have got it the night before, when one of ADS's employees told us that something big was going to happen tomorrow. He told us, one of my colleagues, later in the pub, in Mount Edgecombe. That is a very famous place. I think, [Indistinct] Rocks hotel was very near there. So, anyway, there was, this is etched sufficiently deep in my memory. I was at this meeting, which was one of the regular three month Project Sitron combat suite meetings, they, they call it the TC, the Technical Committee meeting, a Normally, these things happened over, at least, two formal meeting. days. I cannot remember whether this happened on the second day, or it was only one day. But, anyway, quite strangely, at the, at the very

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beginning of the meeting, kind of what we talk about housekeeping issues, under housekeeping issues it was announced, I cannot remember it very nicely, I had a, in order, the Chairman was Fritz Nortjè of Armscor [indistinct]. But, be that may, it is that the meeting was going to end at two o'clock that day and thereafter, it would adjourn, into a presentation, by ADS on the new architectures that would be, that it was proposing, in the context of its new, at that stage, 50 per cent ownership by Thomson. As we know, 50 per cent plus one share had been formally acquired by Thomson, of ADS in May 1998, which preceded this stage of July. I was told that there was a big delegation from France. Who did, who would be at this meeting and they had met these head hotshots the previous day. So, it, anyway, I am pretty sure it is the same, the same period of time. But, certainly, what I remember is, during these presentations, by ADS, starting at two o'clock in the afternoon, which of course, is not on the minutes of this meeting. It is referred to, but it is not minuted, because it was just a presentation. They presented new combat suite architectures. They handed out a whole bunch of diagrams, indicate, they are from CS 1, CS stands for combat suite, CS, combat suite architecture one to seven. There were not actually sufficient copies to go around. I do remember seeing colour copies and I have got a couple of colour copies, which I got later in the stage. But, I, I have, in my, there, what I call CS 1 to CS 7, I have not got all of them, because I have never actually, to this day, been able to get hold of all of them. But, be that as it may, as I said here, CS 1 is the base line architecture. When I said base line, by the URS and we

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looked at that diagram, I think, it was at, at certainly, the eighth presentation to, to AMD, which I think, also comes out of the ECD. That was the base line architecture and I described that very first horizontal thick black line that is the bus, the thick black line that is the bus, with the vertical things coming off it. That is typically a bus, at least, functionally is what the IMS provides. That was depicted in CS 1. Then they, then they proceeded to work through another six architectures. Some of them, and we, we can open this, but they are completely in miss of the IMS, in its entirety. Basically, it is replacing it with the, the Tavitec combat management system and the way that it interconnected to the rest of the combat suite. Then, and this is an unfortunately, a very complicated technical thing now. I am trying to speak in layman's terms as well. But, there were, there were very specific requirements, to have very high speed special data and that required, at least, a consideration of specific architecture.

<u>ADV SIBEKO</u>: I understand, this is a very technically, technical subject, you are talking about now. But, if I may request you to go to your document, CS 1 to CS 7 at the end of paragraph 196 of your statement, it is our RMY 30 document.

20 DR YOUNG: Yes. I have got that open, thank you.

<u>ADV SIBEKO</u>: That starts at page 883 of bundle three. Would, would that assist in your narration of what transpired at the meeting, with regard to the change in the architecture?

DR YOUNG: It certainly will, if I can just gather my own wits about them. Okay. I have to get the numbers, because things are very small.

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I want to start, by pointing out, in the very bottom right hand side, there is a reference to CS 1 A, the very bottom right hand side, right in the corner. Okay. Anyway that is a, this is not actually a, I mean, it was presented as a slide. Of course, there were colour, colour, paper copies handed out, which I never got one. Otherwise, I would have kept it. But, anyway, I am just going to review specific, my, one can see lots of thick black lines. Effectively, that is the data bus. As you can see, it goes all around the whole system. It connects more or less everything to everything, although not necessarily good, but there, there we can see the IMS, which is the base line architecture. Where the IMS gives the, is not part of the combat management system. It is an independent system, conforming to all the, in other words, statements like, basically, the, the distributed architecture and those kind of things. So, anyway, that is, that is the base line architecture. Let me change this slightly.

We change now, then, to page, it is CS 2, CS 2 ...[intervene]

ADV SIBEKO: Would that be the next page?

DR YOUNG: That is ...[intervene]

<u>ADV SIBEKO</u>: That is the next page?

<u>DR YOUNG</u>: That is in my next page, yes. There is also, right down on the bottom, right hand corner CS 2.

<u>ADV SIBEKO</u>: And that is page 884. Yes. So, these pages basically, refer to the alternatives that were ...[intervene]

DR YOUNG: Ja ...[intervene]

ADV SIBEKO: Presented there.

25 <u>DR YOUNG</u>: Exactly, ja, but why I made this one important, you can

see that the residue, maybe I mark this, actually not. I think, CS 2, even though it has got a thick black line, my, my version is in, in colour. But, I think, that that is the, what we call the CMS bus. Because it is connected to all, with, with, mine is brown, but your, it will look like, I am sure for you, as little boxes that state SIFU. Can you see those boxes, connected to the thick black line?

ADV SIBEKO: What is written there?

DR YOUNG: SIFU.

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ADV SIBEKO: Yes. I can.

DR YOUNG: Okay. That stands for, that stands for system interface unit and it was a fundamental block of the architecture and implementation, adopted by ADS and Thomson. I can see, in green lines, that is sort of in the middle of your page and why this is important, that there is, there is a reason. Let us see if I can, anyway, there are lots of green lines in the middle of this document. But, they are not, they are an indication, you, let me put this on the record, of what we call point to point connections, or hardwire connections. What is so fundamental about that as we will traverse a little bit further is that the Navy and Armscor specifically advised, formally advised that a hard wire solution was not allowed and that these are the graphical indications of hard It is also divergent from the local area based typology and wire. distributed architecture based typology is point to point connections. Here we can see, unfortunately, I am not going to try and take them through. If it was in colour, it would be easier to take them to the colour. But, there are both hard wired connections and point to point

connections. So, this typology, effectively, would be divergent from the base line and stipulated requirement.

<u>ADV SIBEKO</u>: As you recall, what was finally concluded at that meeting, regarding the Tavitec or IMS?

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DR YOUNG: Sorry, is your question that what was finally concluded? Okay. There were no decisions made there. But, the, the follow up to this, were two meetings and met, effectively of the same group of But, there were no, no longer Project SUVECS typical people. committee meetings, formulised meetings. They became, what they call design reviews. What was decided was that no decisions would be made, except that ADS would distribute as much information about these various proposals of theirs. Quite, while we never got copies of all CS, 1 to CS 7, I do not know. There will be, there were two design reviews. In fact, these were not even checked by Armscor. The one was, I think, the one or the other, I think, they might be both chaired by Lieutenant Commander Ian Egan-Fowler, who was the project engineer. But, they are, they are on the record. They are discovered, of the discovered documents, as well. I do not, I probably thought, at the time, it was much easier to traverse in great detail, rather just explain. But, each party, well, first of all, ADS was instructed to provide the necessary information and the justification for the change. Then, each party was obligated, in terms of a kind of a report, to respond to those, in terms of what it meant to their system. What it meant, in terms of costs, risks, et cetera. Certainly, at, at one of the meetings, a small modification of the final of the CS, CS sevens was decided upon. You can see that later in

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the documents, whereby the basic IMS architecture was retained. But, to give, to reduce the so-called notion of a contractual risk, whereby we were doing the IMS and other subsystems were using it. But where, effectively, if it had been used as it should have been, you would have taken the combat, the combat management system and, and, what do you call it, legally speaking, dissembled it into parts and reconstituted it, not using their own connectivity method, which could have been the detective data bus, but our own. So, now we are using our bus and our software and our technology, to put their, not combat suite together, their combat management system together. That is the technical underpinning of the risk that then got copulated, not technical risk, but so-called business risk. Why must I have, in my existing Tavitec, a combat management system, which is, I can show you, work on the French, nothing in frigate and now, for the South African one, I must break it apart and put it together with, with my glue and not their own glue. So, to circumvent that, we came up with CS 7 mod one, where there would be two buses, connected together, by people in, who know about IT, who know about gateways and routers and where. It is a box that connects these offices with those ones, across the road. But still, there is still one network. That is what CS 7 mod one does. This was the happy medium. Everybody was prepared to accept it. We were quite prepared to accept it, because it did not really diverge from any of the principals of the IMS. In fact, it then went back to one of my own principals, right from my RINA and MSC days, where I actually proposed a figurated architecture, for precisely that reason. A figurated

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architecture gives independence in each of the federal states, being the substances. But, Armscor, in fact, primarily insisted on one single IMS, because it is easier to manage, it is more elegant, but whatever. But, CS 7 mod one effectively defined two federal states, one the CMS and one, the rest of the combat suite, with a government of national unity together, being a bridged interface unit. You will see, from now on, for the next three or four months of negotiations between ADS and ourselves, all the request for offer they give to us and our responses, are all based on combat suite seven, mod one. So, that had been the agreement, in principal, of how to solve this issue of contractual risk, or management risk, or responsibility risk.

<u>ADV SIBEKO</u>: The CMS mod one is, is the document that appears, I believe, it is at page 887, RMY 31.

DR YOUNG: That is correct. That is correct, yes.

15 <u>ADV SIBEKO</u>: And you say, it is the architecture that is described in this document that seemed to provide a happy medium between ADS and C Square I Square.

<u>DR YOUNG</u>: Yes. Yes. Unfortunately, I have got a copy and I can see you have got monogram copies. But, if you can see, more or less, in the middle, a, what in mine is a darker blue and it is actually still connected with all of those things that you should read it SIFUS, SIFUS. Can you see that?

ADV SIBEKO: Ja.

<u>DR YOUNG</u>: Alright. That is the, let us call it the combat management system bus. Theoretically speaking, it could have been

based on the IMS, a subset of the IMS, the same technology, or it could have been something else. Okay. Then, it looks like small, it is only, it is because of there are a lot of consuls, which connected to the bus. But, the, more or less, the rest of the combat suite does not look so much, but it is still connected to the IMS, that is on the right hand side of the, of the page, in a, ja, okay, in between them, ja, this one, I cannot read. In between, in between the, for me it is in yellow, it looks like a different, if you look at the SIFUS, [indistinct] just below that, there is one box. For me, it is in yellow, but you can see that it is connecting these two different bus segments together. Okay. Anyway, that, that is the technical solution to this otherwise, so said insurmountable problem. Just for the record, on the very bottom, right hand side, in the corner it is indicated here as CS 7 (Mod one) and mod one, being this little technical change. Would it cost a little bit more money? Would it cost a little bit more time to implement? But, actually, it is a very elegant solution in the holistic scheme of things.

<u>ADV SIBEKO</u>: And you say it is on the basis of the solution proposal in the CS 7 one that ADS called for further quotations from C Square I Square?

20 DR YOUNG: That is correct, yes.

<u>ADV SIBEKO</u>: We, we shall deal with that, when we return from the lunch adjournment. Chair would be a convenient time for the lunch adjournment?

CHAIRPERSON: We will adjourn until two, two pm. Thank you.

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(COMMISSION RESUMES)

DR YOUNG: (s.u.o.)

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ADV SIBEKO: Thank you Chair and Commissioner Musi. Dr Young after the discussion on the technical aspects relating to the IMS and the Texas Data Bust that you were informed about. You have now come to the stage in your statement where you deal with a request for quotations which request for quotations as you previously described. It appears to have been based on the [indistinct] arrangement that you have just indicated that you were not happy with?

10 DR YOUNG: That is correct yes.

<u>ADV SIBEKO</u>: Can you then take us through the quotations that were requested from you or from your company by ADS up to the time that this matter was concluded?

<u>DR YOUNG</u>: Okay, can you just indicate to me at which paragraph I should begin?

ADV SIBEKO: You are now at paragraph 204 of your statement at page 43.

DR YOUNG: If I may, I think I should actually commence and introduce myself again. At paragraph 200. I mentioned the BIFO the Bridge Interface Unit as this method of connecting the federated system. But I should explain also it involves making other technical modifications to the IMS. Now that was no technical problem. It was quite feasible to do, it would of course have taken a bit of time. It would also would have cost extra money. Those are negative implications that could have impacted on us.

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I traversed that in my paragraph 200. It is also relevant to point out that despite as I have said, I am talking from a technical point of view and in terms of risk management I think that the CS7 (Mod1) architecture was an elegant solution to a complicated problem that covered all the traditional as well as the new elements of risk.

At that same while I say that officially speaking it did deviate from the baseline CS7 (Mod1) was not officially incorporated into the baseline at any stage so that is why I am saying it deviated from it and that is why I am saying in paragraph 201.

Also at 202 the same technical meeting so the reasons why ADS were proposing these new architectures which deviated so extensively from the baseline and from actually what we have been working for six years from 199.. not six years but five years 1998 was this thing of risk. I need to state that senior managers and engineers of ADS who gave parts of the presentation had been the managing direction Duncan Howles and eventually program manager Doug Law-Brown and one of their senior system engineers Kevin O'Neill sought to undermine the IMS"s possession by stating that it had unacceptable risk. Of course there were two important things.

Their assertions were more or less board. There were never any formalisation of a risk report or why, what category does this fall to assist the risk. We had known this and yet it still did not encourage them to handle this in a way and otherwise was completely self-serving and indeed opportunistic.

ADV SIBEKO: Just as you are talking about the risk that are referred

too in paragraph 202. What actually was the risk that was alluded too there in your understanding?

<u>DR YOUNG</u>: You see although eventually, sorry although eventually the risk gets described as a business or a commercial risk as I said before. To be those kind of risks they would have to be, there had to be another category of risk which means that they are a business risk. But I do not think that they were ever quite sure of themselves and I will say very complicated stuff but about timing the amount of time it might take to sent a piece of critical information from one sub system to another one.

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Those are the kind of things that were being talked about loosely. I do not think that they ever said, I cannot remember. Certainly that there is ADS to us that you C-Squid I-Squid are a tiny little company and you cannot provide a performance guarantee for your technology and therefore you are risk. Or as [indistinct] which I will prove to actually be more or less nonsense. This was just a technology demonstration that this was just an idea meanwhile we have been working on it for since 1993.

They never said that you have only been working for a little while whether it is five years or five months that means that there is a risk. It was never to me explained what this risk was. Indeed now that I come to think of it. I was not only acting at the IMS level, level 3 I was also a member at this stage of the Design Advisory Committee a small group of half a dozen or so specialists in our own fields that was advising the project team. This self saying Kevin O' Neill at one of the these

meetings mentioned a risk. Again it was fairly board and I remember quite clearly explaining of how one can at least identify and bounderise[?] these risks by going through the mayor combat suite functions, not necessary all of them but at least starting off with the most technically critical time critical what we call the most measured critical one. It is not necessarily the most important measured critical function in the combat suite. The frigates are their primary function is to engage in surface combat. That is effectively engaging or sinking another surface vessel with a surface missile.

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That is relatively easy to do with a modern missile. The most difficult thing is detecting and engaging a areal target, especially a crossing target and not an approaching target. An approaching target always get closer to you and engaging it with a gun. It is a very, very, very difficult in a platform that is moving on the sea.

I remember making a proposal as my position on the Design Advisory Committee responsible for system integration. I said gentlemen if you take that there are risk. Just take one or two of these most important functions from beginning to end of the functional flow and analyse all of them. Break them down, analyse them and work out what the technical risks, timing risks or whatever they are. This was done more or less in this 1998 time period of prior to this. Again all of those were just not addressed at all. At all, at all by UEC who is in charge of system integration.

In fact, now that I come to think of it I can see there were actually complaints by Armscor done at a much later period that ADS had not

properly done its engineering in these respects of system coherency and system integration. The reason is that they did not, they knew they were in on this program for different reasons. They were not bothered to address the real technicalities behind their propositions at risk.

So I would be saying maybe in a nutshell. I do not know exactly from ADS's perspective from when these risks were meant to derive.

<u>ADV SIBEKO</u>: Now despite the assertion being made that the IMS entailed unacceptable risk in November in 1998 C-Squid I-Squid was requested to make or to quote for the IMS.

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<u>ADV SIBEKO</u>: Now that discussion commences at paragraph 204 of your statement. Can you take us through that?

<u>DR YOUNG</u>: Okay it is as a predecessor 203 we saying that the Navy had actually directed ADS to generate an issue a technical description of CS7 (Mod1) although they never did so that they fact the understanding of the technical baseline which would be the foundations for which quotations would be done. Quotations of course have technical aspects and got logistic aspects, all kind of aspect as well as money aspects.

So it was on that basis that ADS issued us in its position as this now exclusive level 4 combat suite supplier without competition. So it is assumed a mantel of responsibility and by that same token gave it the right to ask us for quotations. Receive our technical information and price and as we will come to later we will see that at least out prices were basically more or less in the domain I have already talked about

the Navy and the DOD had it seemingly at least in its Appendix I or J or whatever it was to the URS had budgetary estimates.

So clearly our prices had visibility. ADS made our prices visible to their French parents and I will prove that in terms of documentation as well as to what would actually became our competitor being the company in Texas. That is an important reason why I need to traverse some of this information.

As the nominated contract suite slow contractor, I am talking about nominated both by the DOD and now by GFC. They were entitled I suppose at least in their view to ask us for four more quotations. So they asked us for quotations for the IMS and here is the wording, hopefully correct from the RFQ dated 11 November. I have it in front of me.

ADV SIBEKO: The RFQ you are referring to is it the one is the DT10300?

DR YOUNG: 0300, yes.

ADV SIBEKO: Yes.

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DR YOUNG: That is correct.

ADV SIBEKO: That would be RMY32 at page 888 of Bundle 3.

20 CHAIRPERSON: You said that it will be at page?

ADV SIBEKO: 888, RMY32 file 3. Now you say in paragraph 204:

"On 11 November 1998 ADS as the nominated combat suite contractor and nominated supplier of the integration segment requested CCII System as nominate supplier of IMS to furnish a formal quotation for the supply of the IMS. ADS's request included the following note in respect

of the IMS for which CCII Systems wants to quote. The quotation goes:

The sub system is as established at the level 4 DR under Project

SUVECS and as modified by the selection of the CS7 (Mod1)

architecture at the last technical committee meeting (TC 14)."

5 <u>DR YOUNG</u>: That is correct. I found that particular note it is on Annex 1 of that RFQ. It is my PDF page 5. So it is five pages after the first page of reference document.

CHAIRPERSON: I am sorry. Just from my understanding. Let me found out from Dr Young. In your understanding if a particular supplier is nominated to supply a particular product and during applications it turns out that, that nominated supplier cannot agree with the main contractors as far as the price is concerned. Under that scenario in your view what should happen?

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<u>DR YOUNG</u>: I think as I testified yesterday is that all things being equal if one has been nominated or selected and nothing fundamental changes like I said, price or sudden risks suddenly became apparent or time scales become untenable. Or some absolutely some problem which in legal terms goes to the route cause. Unless any of those change then once especially a statutory authority has made a nomination or selection that should change.

There is two aspect of it. If there is going to be a change it has to be changed in a formal way. If there are baseline there are formally established baselines you have to establish or re-establish the baseline formal change before a an alternative supplier can quote for something different.

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I talked about a legitimate expectation there is two notions of it. One is the right to correct an administrative procedure. That is what I am talking about now. If our sub system was being deselected there needed to be a proper procedure going through that. I am going a bit further than that. I am saying that because we have been working so long because we had spend our own money. Because our system met the technical requirements. Our costs were known. Our costs were actually published by the DOD it their user requirement specification in Appendix J.

When you publish somebody's cost you are suddenly quite open up to competitions. So that gives rise to a substantial legitimate expectation.

CHAIRPERSON: I understand exactly what you are saying then maybe I will understand as it goes on. The simple question is. If you are nominated and you and the main contractor cannot agree on price, main contractor feels that the price that you are quoting are to high and you feel that you cannot go below the quoted price in your understanding what should happen?

<u>DR YOUNG</u>: Yes unfortunately that really means that if that, it is not just a simple thing to say cannot agree on price. You will see when I take you through the evidence that the price, there was no price to actually agree. Our prices had been submitted and were expectable. Then they were going to somebody like ADS who assume and exalts a position in the greater scheme of things and they only made our price unacceptable by basically effectively doubling it from R42 million to R89

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million.

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Not that would be fair is there were fair reasons to do so but there were no good reasons to double that price. Their justification for doubling that price was based on risk. I will go through the whole analyses of risk.. There were no justifications based on risk. In fact I have already gone through that point and I think it is fairly clear from the documentation. ADS who is the main contractor, just remember that the GFC had very little to do with this regarding the combat suite and the price.

They were, it is not they who could not agree on the price, it was ADS. ADS by this stage raise itself from being a level 4 contracting party to a member of the consortium that actually received the contract. ADS and Thomson were the people who were dealing with the issue of price. They said in the document which I read out yesterday is that there are no unacceptable risks. So if now risk is the reason for doubling the price there is something that is not making sense here.

I would say if there were good reasons why a sub contractor and main contractor could not agree on price then of course that would lead to the parting of ways. When I am saying this instance that was not the basis of this.

<u>ADV SIBEKO</u>: Just before that question was put to you. you were dealing with annex 1 with the request of quotation from ADS that appears at page 892 of the bundle.

<u>DR YOUNG</u>: Is that annex 1, scope of supply?

25 <u>ADV SIBEKO</u>: Yes.

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<u>DR YOUNG</u>: Yes, a fundamentally important thing especially what we have just been talking about in terms of the baseline and CS7 (Mod1) and what I have hopefully correctly quoted in my witness statement is the note under paragraph 2. Integrated sub system. Maybe it is relevant to read out the whole thing. The integrated dual redundant fibre optic FDDI again that we were offering were the only people offering is FDDI local area network database,

Indentified down to a storable item level. The Sub System they are talking about the IMS the subject of this RFQ is as established at the level 4 (I have talked about level 4 that is the combat suite level) and DR 2 stands for Design Review number 2. Now this is where the South African [indistinct] two second diverse slightly from the US Department of Defence System Engineering of having a preliminary design view and a critical design view and a formal qualification review. They call it DR1; DR 2 and DR 3.

Those design reviews were formally established and undertaken documented, signed off and design views which established whether it was a combat system, sub system at level 3 or a combat suite at level 4. If it established and formulised the baseline. We had already done this, in fact we had already DR 3 at the IMS level. At the level 4 when they say level 4, that is a combat suite level at its DR 2. So it established a base line for the combat suite at DR 2. The project that was being run at that time which was Project SUVECS.

Also as I have described before lunch the media V was not to go for the baseline architecture CS1 or CS2 which is maybe Thomson's

preferred architecture the media V was CS7 (Mod1) at obviously the selection at the last technical committee meeting TC14. I introduced this particular topic by referring to the instruction given by the Navy and the Armscor regarding CS7 (Mod1).

They used the word selection of the IMS or in the context of the IMS specifically CS7 (Mod1).

<u>ADV SIBEKO</u>: You have already indicated in your evidence that up to that time there had been no amendment to the program plan or the ECD or the URS, is that correct?

10 <u>DR YOUNG</u>: That is correct, yes.

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<u>ADV SIBEKO</u>: You say notwithstanding that there had been no former amendments to the documents on the base of which the IMS was selected or designated product C-Squid I-Squid submitted a quotation?

<u>DR YOUNG</u>: Yes we did yes.

15 <u>ADV SIBEKO</u>: That quotation that you submitted is your document DT10317 which is our RMY33 of page 897 of the bundle.

<u>DR YOUNG</u>: That is correct, I have it in front of me.

<u>ADV SIBEKO</u>: Is there anything specifically that you want to point out in the quotation that you submitted to the request?

DR YOUNG: Yes we were looking at the analyses and the results of the IMS Cost and Risk Audit. I specifically remember mentioning for the 98 year a cost of R38 odd million. So now we are talking about the following year not a whole year later but we are talking about November/December that year.

My quotation is R39 million. A very small point is I did not mention

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because I did not think it was important. When we were looking at the notes that I read out at sub system level underneath integrated system they revered to something extra. 4 off bust testers for use by sync. That was one of the reasons probably the most important reasons I cannot remember all of the reasons. While there was small price change for technical reasons for scope of supply reasons there might also have been other price escalations factors like inflation.

Anyway more or less to all intensive purposes the prices were remaining the same so there were no surprises either to ADS or to Armscor or the Navy that suddenly now we will ask to formally quote on something in a Capital Acquisition Program we were now taking advantage like it certainly alluded to in the other documents of radical price increases and escalations. Ours were more or less always the same taking into account inflation, rate of exchange and small modifications of technical baseline and scope of supply.

<u>ADV SIBEKO</u>: After you had submitted that quote you were then asked on 15 December 1998 to submit a further quote?

DR YOUNG: That is correct, yes.

<u>ADV SIBEKO</u>: That request from ADS is that the document DT10320 of your document and our RMY34 at page 916?

DR YOUNG: Yes, I have that in front of me.

<u>ADV SIBEKO</u>: Why was it necessary for this request for quotation to be made subsequent to the response you had sent to ADS?

<u>DR YOUNG</u>: Well there are a couple of reasons, what involves changes in architecture baseline, loosely using the word baseline at this stage.

This is the quotation baseline. But importantly as I have said despite us agreeing to the media V of the combat CS7 (Mod1) which as I explained technically is or requires the use of the Bridge Interface Unit.

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As I also talked about the federated system and two systems possibly talking together via the Bridge Interface Unit. Now suddenly they are changing that again. So seemingly or at least my paragraph 209 they are actually reverting to the original baseline document. Removing the Bridge Interface Unit assuming a single dual redundant FDDI LAN where it could have been a dual LAN connected. Interestingly something we always talks about and always offered and never been accepted as a requirement, we are getting into the realms of internet technology is the language, We are talking English because we are from all different backgrounds but we all talking today in the same language as English.

In computer terms you have to talk a common language and this is a protocol which is a language TCP/IP which as you know is the foundation of the internet. They asked us to provide that as an extra. I probably should have thought of it at the time but I am thinking about it now. The reason for this is clearly, they did not do the connection of these two different segments of the network with a physical box called the BIFO they wanted to be able to provide, just bare with me for 60 seconds.

A network is a physical network. It can talk different languages that would be called a virtual network when it is running two theoretical networks over one physical network. So we would have effectively it

looks as though had our network running our language called XTP and their language called TCP/IP simultaneously. That is what it looks like to me.

So they still have this notion of connecting the combat management system together with its language and our real time part of the combat suite with our language but only requiring one physical clearly FDI LAN only one physical one. Then doing away with the physical requirements of the BIFO and of course the cost. That is something that we would had to developed. So that is very important they are now jumping back a step in so-called baseline management.

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Additionally we are suddenly asked to provide for not four sets because there were four corvettes and by this stage to save money it was decided that there would not be a 5th set. Traditionally you have what you call a Land Based System Integration Test Bed. They decided that each system would go into the test bed and from the test bed into the ship. Anyway they required an extra system and unfortunately its it is deep in the details of their requirements very fine print. They wanted a thing called a It has got a Q in it. Basically it is a qualification test. Qualifications reference platform of their own. It is something that they would have on their own premises on their own site and it would not be a deliverable to the ship.

So they asked for an extra set. Previously I think I can remember now there was a request for four sets. Four ship sets, indeed. Four ships. Anyway certainly in the scope of supply of the 11 November one it was four ship sets. Now they are asking for five sets. Four ship sets

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plus their internal qualification reference test set. What that means is of course extra costs. Dual attached nodes. That is an FDI node it is a piece of equipment that goes inside each side sub system and I think that we estimated that each system would have about 15.

Now that they are including the combat management system, you have seen the diagrams it has got extra connection points. So now suddenly that figure has jumped up. Probably from the region of 15 to 25. These things cost several thousand dollars each and if you are increasing from 15 to 25 that is 10 times 5 (10 x 5) so you are talking about a lot of money. They were also asking for extra things. It is getting a little bit technical but extra hardware. These are board pieces electronic equipment.

Also the development of another version of software. I am not going into detail. The APIS software is another dialect if I may say of our or the language that our computers talk to each other and talk XTP as a protocol but they have to talk at a higher level language in application into interface services. We developed that but now they wanted us to add specific functionality to that called Connection Orientated Services.

It is software that would have taken extra time and extra money to develop. So there a fairly fundamental C change in this very short time from 11 November to what was this the 14 or 15th December. Was my explanation sufficient for you?

ADV SIBEKO: Right despite the request for you to quote on some extras from the time that you quoted previously on 11 November 1998 you submitted a quote in response to the further request for quotation.

You say this was it is not set out in your statement. Is this the quotation that you submitted which appears at RMY35?

<u>DR YOUNG</u>: No. It is not at all. This is a combat suite... no not at all. This is a combat suite pricing spreadsheet. I can have a look on mine.

5 <u>ADV SIBEKO</u>: At paragraph 218 of your statement you said that you dually submitted a formal quotation at R54 million?

<u>DR YOUNG</u>: I do say that yes. It is the document discovered I was just looking in my discover spreadsheet schedule here. Because it would give me an index and if that thing was later in the document I would be able to easily find it and refer it to you.

<u>ADV SIBEKO</u>: It is okay. We can find it during the adjournment and we can include it in the documents. I think it suffices to say that the quote is submitted and is R54 million and R985 481 inclusive of VAT (R54 985 481). That would have been the price right?

15 <u>DR YOUNG</u>: That is correct yes.

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ADV SIBEKO: Next you deal with the GFC's February 1999 offer that starts at paragraph 214 of your statement?

<u>DR YOUNG</u>: If you can just bear with me for a couple of seconds. Could you just take me back to the paragraph that you want me to address?

ADV SIBEKO: It is paragraph 214 of your statement.

<u>DR YOUNG</u>: Yes, I have got that in front of me.

ADV SIBEKO: You talk about the GFC's offer of February 1999?

DR YOUNG: That is correct, yes.

25 <u>ADV SIBEKO</u>: You deal with that in terms of your RMY35 on our

bundles at page 918.

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<u>DR YOUNG</u>: That is correct. Basically what I am doing at this stage is I am introducing the whole issue of costs. We told about the original costs the ceiling price, R1.47 billion in April 1998 we talked about that being escalated to R1.9 billion in December 1998. What I want to show is that part of this thing of risk and unacceptable risk and price is how a R1.47 billion system went to R3.9 billion and then back to R2.599 billion. It was in this process that our IMS got excluded based on costs.

So in am introducing this and that particular spreadsheet I am showing in the reference of the evidence document as got that price of the R2.607 billion excluding VAT.

ADV SIBEKO: You say that the content of the offer that was made to GFC that was made by ADS, Midrand. This was the leader of the consortium of the combat suite?

DR YOUNG: Yes look at this stage the GFC had nominated ADS as it's combat suite partner in supply. There was still some water to flow under the bridges before all of these things became formulised. I think that is why I put it is the GFC submitted that quotation effectively on ADS's behalf. Later the contracting party or the negotiating party then the contracting party Nolan became directly the GFC as super consortium consisting of the GFC plus Thomson-CFS and ADS. That instance ADS would have been what we call a, no longer a level 4 but a level 5 player at the same level as the GFC.

So they would have submitted prices and quotations and things more or less. At this stage ADS was working at level 4 through the GFC at

level 5.

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ADV SIBEKO: You continued in your statement to say that the quotations submitted had allocated an amount to the IMS which after which Armscor responded to a quotation that was submitted. Will you just take us through that?

<u>DR YOUNG</u>: Yes, I can say that I have found our quotation dates, I think dated 22 December in response to ADS's request for quotation on the 15th. It is a discovered document.

CHAIRPERSON: We shall make that available after the adjournment.

Can you deal with the issue of the offer made that evoked a response from Armscor?

<u>DR YOUNG</u>: Sorry could you just refer me to which paragraph, the Armscor response?

ADV SIBEKO: That discussion commences at paragraph 215 of your statement and it goes down to about 218.

<u>DR YOUNG</u>: Okay. As I have said in the quotation there are various spreadsheets to back it up. I am not sure, it is very small to read and the one that I had opened whether it is in that one or not I do not know. There is references to that particular prices that I am talking about in paragraph 216 of R42 million.

In fact, as far as I can remember that was the final IMS price and ADS was allowed to add on some extra amount for integrated logistic support at the system level for the subsystem. There were multiple prices put in, not so much put in by us but got put in by ADS for the IMS. I think all was still based on the basic IMS price of R42 million. The first one was

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R68 million so they added on a risk of R19 million.

What is so important is by the time that the IMS got excluded based on costs, based on risk that amount of R68 million had actually increased to R89 million. I can remember now that apart from R68 and R89 million there was another one in the 70's round about R78 million.

In my view or at least my memory I do not think that there were no changes whatsoever and certainly no, say interrogations to us as to what these risks could possibly constitute that could change them from R68 million to R78 million and then to R89 million. This is all (and I will say it) frankly this was all thumb sucking and in fact if we look at the evidence of Puma Nome there was a lot of thumb sucking at to where they got the figures.

However I do not think (and I was never asked for my opinion) whether a risk provision of R19.7 million was justified at this stage I probably could have said in the sober light of day even then that possibly in the amount of R19 million could have been justified. It is only a well is 50% of our price. That is sort of getting into the ballpark of reasonability. Once you start getting to R89 million then in my view that is right in the ballpark of un-reasonability. The point is how they got to these various figures I have no idea.

ADV SIBEKO: Once that quotation had reached Armscor it then responded to GFC in terms of a letter and it is dated 8 March 1999 signed by Llew Swan that you would find. It would be document DT10363 RMY 36 at 919?

25 <u>DR YOUNG</u>: That is correct. Do you wish me to take you through it?

ADV SIBEKO: In that letter Llew Swan (Chief Executive of Armscor) at the time appears he acknowledges receipt of that quotation and makes certain comments. Would you like to take us through that for the record?

DR YOUNG: Yes. Possibly by way of context of course although I was not deeply involved in the prices they certainly were in the periphery and I would not say that I was intimately aware of going on. I was definitely aware of the greater scheme of what was going on with regard to the submission of quotations and requests for quotations and prices.

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Also as I have just shown on that one spreadsheet the price submitted for the GFC for the combat suite was R2.670 billion excluding VAT which was all of R700 odd, million higher than the one of R9 million that they were more or less kind of expecting after their detailed costing analyses from the previous year.

So of course and of course more importantly it far, far exceeded the ceiling price for the combat suite of 1.4 escalated to 1.9 but that of course far exceeded the ceiling price for the Corvette as a whole which had been set at R6.001 million as we looked at before. So the R6.001 would have come to all intensive purposes something like R6.7 million.

So there was a lot of consternation and we should come to some of the letters written by the joint project team by Admiral then Captain Kameran and his fellow executive team member, Chris Nortjè. Great great consternation in the prices that were now being received. If I may say in this non competitive environment which spawned[?] this kind of conduct in this kind of approach from ADS and especially from ADS and Thomson.

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The response, there was now a formal response from Armscor being the Acquisition Authority in my view (I am sure in the view of many others) to start putting the GFC more or less on the spot. The way they did it was writing this letter and asking for, first of all alternative strategies. Obviously when we are talking about alternative strategy we talk about acquisition. Acquisition strategy the whole context is buying a vessel and buying a combat suite. It is strategies of how to reach that goal. Again with reference to the baseline. The user requirements and the user requirements.

They are talking about [indistinct] of course if they could not meet it then what should have happened was to change the baseline and the form of configuration control to exclude torpedoes or whatever else were originally there to reduce the prices, that is what you do if you already have a baseline. They have mentioned there in the middle of the page, lowest price. Clearly this was the crux of this was price.

Not only were they looking at alternative strategies but they specifically looking at alternative contract D models. Models which achieve the most cost-effective solution. Now I alluded to that earlier when I said that the GFC had been declared the preferred supplier on the basis or input declared ADS as it combat suite partner at a lower level. This alternative contract D model is one which eventually eventuated which I called the super consortium. We will come to it later so I might as well mention his name. The consortium which eventually won this contract and the partners who signed the umbrella agreement on 3 December 1999 is a thing called the European South African

Corvette Consortium, consisting of GFC would have self consisted of its own sub partners. Thomson-CFS, NCS, Naval Combat Systems a division and ADS.

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Just for the record I am at this stage or between this stage and the that final one there was also a thing called the Corvette Consortium for South Africa which at least in n name succeeded this situation and preceded the Esac[?] situation. There was good reason for that, because when there were different contracting partners at different levels you were not formally contracting partners in terms of a tight business agreement like a consortium agreement. There were various layers of mark-ups, profit mark-up and risk mark-up's et cetera that were contributing to this unacceptable price of let us talk about it of round about R6.7 instead of R6.0 corvettes and R2.6 rather and R1.9 for the combat suite.[Not mentioning millions or billions in above sentence].

Very importantly from a number of issues we are going to be discussion the whole issue of British Aerospace in particularly it subsidiary company called BAe-SEMA and the company that came out of there Advance System Management, in terms of alternate bids for the supply of the combat suite. This is a precursor to that. Also the fact is that basically what that also means is that ADS itself and Thomson-CFS and ADS together were no longer a guaranteed nominated supplier selected at level 4 basically for two reasons.

One is that there were no longer a South African company offering indigenous products like the AIS and the WCU. It also completely diverged, if I may use a light word from the expectations of cost. So

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now here you have a *bone fide* reason of why a contractor and a nominee to start at least talking about parting ways is because based on the expectation of R1.9 they are suddenly getting R2.6 which is more or less untenable. You would see that even though they ended up at a price of R2.6 billion the navy had to cut its quantity and quality using it own words very substantially to actually meet that.

Anyway this is the precursor for all of those things and it is done in the name of the Chief Executive Officer a board member of the effective Tender Board for the acquisition process.

10 <u>ADV SIBEKO</u>: You say that at paragraph 219 that:

"During April 1999 ADS and TCFS presented to Armscor and SAN a revised combat suite architecture based on the Tavitac CMS and the Detexis System and completely eliminated CCII's Systems IMS."

<u>DR YOUNG</u>: That is correct and we will go through the details in a little bit more detail in the evidence succeeding this.

ADV SIBEKO: If you turn the page to paragraph 220 you talk about the Navy addressing a letter to GFC and ADS stating that the cost and acceptable price from the combat suite had not been achieved through negotiation. They were requested to submit a best and final offer for the combat suite. Take us through that?

<u>DR YOUNG</u>: Okay that is the factual introduction to this issue which is addressed in far greater detail in terms of the letter which I want to ...[intervenes].

ADV SIBEKO: Is that the letter DT10426 which is RMY37 at 920?

25 <u>DR YOUNG</u>: That particular document is not the letter that is still

coming up actually not the SAN it is probably the DoD, GFC. This is the best and final offer that resulted there from. Do you want me to go through that now or?

ADV SIBEKO: Yes.

- DR YOUNG: Oh yes. The reason why I did it this way was because the whole thing this letter that I am talking about from, I said the SAN I probably meant the DoD actually came to us a annexure to ADS's own request to us so that it was one continuous document and that is the way that I presented it rather than splitting it myself.
- So we can basically start at the first page. It is a document on ADS stationary dated 13 May 1999 and it directed to C-Squid I-Squid, my attention.
 - <u>ADV SIBEKO</u>: It is at page 920 Chair. The letter is dated 13 May 1999 addressed to you. Take it from there.
- DR YOUNG: That is correct. As my witness statement narrative says. It says the consortium now here we see the beginning of the consortium although it is not named of ADS and the GFC had undertaken to submit a best and final offer BAFO for the vessel system as requested by them. That is one confirmation of what I said preceding this.
- Seems to be done in extremely short time. They only had until the 19th. They sent us the their own RFP on the 13th as you can see in the next paragraph for our own response the very next day, Friday the 14th. They do importantly refer to in that first paragraph the very last word, Appendix A. They also refer to in the 3rd paragraph that our offer is invited in accordance with the RFO attached as Appendix B should be

taken into account with Appendix C.

So that is why I killed three birds with one stone by attaching ADS's RFO and its annexure with are Appendix A which is at my PDF page 3 so it will be three pages into your document.

5 ADV SIBEKO: That is 922.

<u>DR YOUNG</u>: Basically what that Appendix A is a cover page to the letter to which I refer came from the SAN where I actually meant came from the DoD. Project Sitron Office Department of Defence. Inquiries Captain Kamermen dated 6 May to Messis separately GFC and ADS.

10 This a quite a lot of stuff to work through there.

ADV SIBEKO: That letter appears at page 923. There is a portion at paragraph B that deals on that page with combat suite as per ADS offer Project Sitron Combat Suite. Does that have any relevance to what you want to say?

DR YOUNG: Sorry I missed you there. Could you just direct me to that particular, are you talking paragraph of the letter?

<u>ADV SIBEKO</u>: It is paragraph B you see the letter. It has a heading request for Best and Final Commercial Offer. Just about two 3rd's down there is a paragraph B, it is paragraph 1B it is for the combat suite. Do you see that as per ADS ...[intervenes].

DR YOUNG: Sorry I thought I heard E or D but I think it is B.

ADV SIBEKO: Yes.

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<u>DR YOUNG</u>: Yes it is not that informative but is it an introduction to the rest of it. It is for the combat suite as per offer ADS offer designed to cost measures. Obviously that it a separate document whether I have

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that document I am not sure. Dated 7 April 1999 where this as I alluded too in my previous item where the Navy had to accept reduction and quantity and quality that can be described too design to cost measures.

I certainly can remember this but I cannot remember this in my witness statement. However be that as it may the specific requirements are indentified in Appendix B to this particular page. That is a good start.

ADV SIBEKO: Paragraph 2 at the which is the last sentence the paragraph of that page deals with price rates and conditions. Any comment on that?

<u>DR YOUNG</u>: Yes indeed. I am kind of appreciating some of the new answers this for the first time. Because we got taken to task for this very same point where we baseline some of our prices and then ADS took great, great issue with them because we quoted what I used in May 1999 based on. Anyway that really means that the ceiling prices then should have been with reference to the R1.47 billion ceiling price for the combat suite and not the R1.9 billion which was the December price.

I am talking nonsense because it is 31 December 1998 for the combat suite and 30th 1998 for platform. Anyway I think it was a good thing that we placed that in the right context. I think for the first time actually mention specific exchange rate without us having to guess them. Just moving down through here... I do not see so much of importance in this annexure A. What is really important and what I have got highlighted I have marked which you would be able to see in your own documents which are red tangles but I also have hyperlinks.

A couple of things that I mentioned before and certainly come up

later. I will just stop for the moment to catch my breath and let you lead me from here.

<u>ADV SIBEKO</u>: Now once you requested to submit your best and final offer the next day you dually complied with the request, is that correct?

5 <u>DR YOUNG</u>: That is correct yes. Whether or not it is in reference in the witness statement it is discovered document.

ADV SIBEKO: That response you will find at DT10427 which is RMY38 at 948. Is that the document. There is a document at page 948 our page 948 it is titled it is from C-Squid I-Squid and it has right at the top Proprietary Information and it says, Best and final offer for the NAV distribution sub-system for the Patrol Corvette Combat Suite, dated 1999-05-14.

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<u>DR YOUNG</u>: No this an incorrect document because it is for the navigation system the navigations distributing system whereas in the narrative I refer to being a response... no it is the incorrect document. In paragraph 223 I refer to a offer of ours on 14 May for a price including VAT of R44 million. That is the incorrect one. I am going to have a look. Here we do have an incorrect referencing situation.

<u>ADV SIBEKO</u>: Can you look for the document during the adjournment and we will provide it to the Commission the best and final offer?

<u>DR YOUNG</u>: Will do so yes. If I may just say at this juncture. I do not think I actually got to that point yet. I was still working through the ADS's request for offer and which it Appendix B. If I may work through the rest of that. It is very relevant at this point.

25 <u>ADV SIBEKO</u>: Is that Appendix B dated 6 May 1999 at page 926?

<u>DR YOUNG</u>: That is correct. That is the one we were working through.

<u>ADV SIBEKO</u>: You can go through that. Is there something that you need to highlight on Appendix B?

<u>DR YOUNG</u>: Yes there is actually quite a few things. I have opened up various other documents. I just want to get rid of them so I can concentrate on the right one. Okay. I am back to where I was. We were addressing Appendix B which is page 7 of my document. I was refereeing to my 0426 RMY38.

<u>CHAIRPERSON</u>: Maybe let us take a 10 minute adjournment then wewill get that one or two things in order.

ADV SIBEKO: It is okay Chair.

(COMMISSION ADJOURNS)

(COMMISSION RESUMES)

DR YOUNG: (s.u.o.)

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ADV SIBEKO: Dr Young just before we adjourned you were looking for Appendix B at page 926 dated 6 May 1999 which is the combat suite baseline for vessel best and final offer. Did you find it?

<u>DR YOUNG</u>: Yes, I did actually have it. I really appreciated that break I think I was beginning to saturate.

20 <u>ADV SIBEKO</u>: You can deal with the issues that you wanted to comment on.

<u>DR YOUNG</u>: This is actually an extremely important document. The first point is, the first point of this extremely important document is item

4. I think it is highlighted on your version as well although it is not in colour. It says:

9202

"A hardwired solution is not acceptable to the SAN. Architecture to be as proposed on 7 April 1999."

I will explain that essentially although not a 100% of it but there are very many aspects of the architecture and the implementation that were eventually chosen and actually done are effectively a hardwired solution.

I was not privy to the discussions of 7 April but as far as I know is that at the very least the architecture decided there still included the IMS. The next important point is actually a kind of a double annexure to that that appendix. That letter was attached and it is my PDF page 9. It is dated 31 March. Can you find that?

ADV SIBEKO: It is at 928?

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<u>DR YOUNG</u>: I do not have those numbers but I think that is for the benefit of the people who do have numbered versions. It says document written by Captain Kamermen to the German Frigate Consortium.

ADV SIBEKO: Is that the letter that is addressed to Mr H Kamermen German Frigate Consortium as a Corvette Combat Suite Group?

DR YOUNG: Yes indeed. If I may just point out that SA Corvette Group has nothing to do directly with the Germans. That was the group of South African companies who were selected and indentified as partnering with ADS just to supply. Interestingly it was addressed to both entities which are completely different.

We mentioned the term when I read out the term design to cost measures. What I said I certainly was aware of them. What I meant was

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that I was not involved in formulating the design to cost measures. I am basically now just going to be addressing what are the design to cost measures that have stipulated, handed up and handed out and handed down by basically the DoD to at least the GFC. Of course the SA Combat Suite Group did include ADS at that stage.

Okay. At the beginning of this letter there is reference to a first order list of cost saving measures. I think this goes to prove to what I was saying earlier about this whole exercise was being embarked on now is all to do with costs. Especially in light of the costs that had been presented thus far which precipitate a kind of response from the Acquisition Authorities.

Very importantly in the greater skim of things is what is said here in the second paragraph. I will read that out:

"You are reminded that these measures represent a considerable departure from the functionality required in the SA Navy Corvette Combat Suite User Acquirement Specifications and has been [indistinct] by the untenable price of the local combat suite offered in February 1999. The latter had been double the price provided by the SA Industry in May to August of 1998 with essentially the same baseline.

As such these measures reflect the SA Navy's willingness to concede combat suite capability to achieve a affordable corvette. As a totality however they do not yet solve the budget problem. You are urged to vigorously innovate and review all prices including rates; mark-ups; risk provisions and warranty provisions in order to achieve further cost reductions in the spirit of assisting the SA Navy to achieve a viable

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solution and mutual interest."

Now that has actually been done but at the cost of giving up as I said described elsewhere in the DoD's own words as terms of quality and quantity. Certainly from the perspective of this particular point I want to make here is that although prices did come down this was for a negotiating tactic. In respect of the IMS it was one, or thee mechanism to make the IMS unaffordable. The whole R2.6 was unaffordable. Okay yet at that stage we were talking about a R68 million price the ADS was offering and yet it did not reduce it went to R89 million but for no reason.

So I am saying that it is a ploy it is a tactic in this negotiation procedure as my own legal team at one stage said ADS and Thomson had the DoD over a barrel. They were things were getting late in the day for whatever reason there was no competition and another maybe important point that we did not even see any competition at this stage despite the letter that we addressed from Llew Swan not before.

So they were in an extremely powerful position. In terms of this cost reduction methods which reduced the quality and the quantity in the scope of supply these are addressed in the detail starting on cost reduction measure to be incorporated, Item 1; common areas of cost provision. That is all details that I will not go into. We come to section 2, Reduction of the surface to air missile. A very expensive system, a very good system but very expensive several hundreds of millions. Reducing the number from 32 per ship to 16 per ship.

I am not going to go into all of it. The dual purpose gun. I talked about the difficulty of hitting a when it is an closing target let alone a

crossing target with a gun on a ship. One of the ways you can do it is by using this special ammunition which explodes before the flying target. It is very expensive and it requires a lot of system changes to radars and things, it is called close fire control but they got rid of that.

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We come to item 4, the IMS. Very importantly is at least at this stage the IMS is still here at the end of March. It is this as far as I remember this letter is attached even though it is a March letter is attached to 6 May letter. So we still here in May so the IMS is still there and this certainly is not a Texas a so-called IMS but then again reducing costs as I said last time in response to ADS's second request for quotation. They are the ones who suddenly introduced the requirement for a dual protocol stake. Now the Navy or the DoD is saying remove it, removal of extra animus process I do not quite know... I could speculate right now but I do not think that it is necessary to belabour the Commission with that level of detail.

However here is quite an interesting one as I said before the price of the IMS R42 million jumps to R89 million. Of that R89 million, R10 million was actually at least in one person's idea where the R89 million came from there is certainly documentary evidence. They decided, I think this is Thomson and ADS and GFC they were going to get external specialists parties involving us as well and do a risk evaluation study at a cost of R10 million.

Now I mean R10 million on our subsystem that was only going to cost R42 million is a lot of money but R10 million is only R10 million it is not R49 million or R47 million. In their own view R10 million was too much.

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PUBLIC HEARINGS

Right there is reference to the CMS and we will talk about that price. You can see there is a lot of reductions in that EW System there is a lot of rocket systems that are reduced actually by half. In the tracker system the tracking radar is reduced one system to two. Sorry from two systems to one. On this very expensive that all together could have cost R500 million or told the surface to surface missile indentified here in item 9.

ADV SIBEKO: The items that you are refereeing to are these the items at page 3 or page 3 of that document and our number 930. You referred to EWS item number 6 and your referred to MGW item number 8A on SSM I think that is the surface to surface missile at item 9 those appear at number 930 of our papers?

<u>DR YOUNG</u>: That is exactly correct. I am not belabouring these points unnecessary because we are still going to come to some of the these things specifically the SSM the surface to surface missile. Here is an instruction to reduce 2 16 rounds, it was originally 32 rounds, 8 rounds per ship now it is being reduced with only one single missile for all four ships for sea acceptance tests. We are going to come, this is even though it is a May issue here we are going back to end of March because we are still going to come to the issue of the pricing of the navigation distribution system. You can see now the precursor of this is the cost of the navigation system which was then offered by ADS if I remember R42 odd million was also deemed far too high.

The system management system which we are going to come to as well that had been offered at something like R69 million and eventually

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reduced to R29 million with our involvement and they wanted production there not only of price [indistinct] price reduction, well reduction to basic systems et cetera. So I think that is a pretty important letter from the DoD. Which puts certain situation certain situation at the time and if I may say the desperate in fact I am pretty sure this is the same wording as close as to gets used elsewhere by Amrscor and the Navy maybe even in witness evidence regarding this in this Commission.

They were in fairly desperate situation to try and achieve an affordable combat suite. That led to a lot of things which I am going to be addressing in the rest of my witness statement.

<u>ADV SIBEKO</u>: Now having dealt with that letter do you say that in compliance with the request that was made in that best and final offer C-Squid I-Squid submitted that best and final offer on 14 May 1999 as it was requested. Is that correct?

DR YOUNG: Yes, that is correct. Unfortunately we introduced the wrong evidence document here. I think in fact when I initially went through this I did not actually think it was necessary to go much further than to state the price because that price is effectively where we ended up. Our price excluding VAT was more or less as the original R38 or R39 million and it was that price excluding VAT which was eventually being offered by ADS as at R89 million. It is on that basis that we got excluded.

There is not, I will certainly find it. Sorry I have it right in front of me in my I do not think we really need to ventilate it much further than that.

25 ADV SIBEKO: You say on 24 May 1999 GFC and ADS submitted a

best and final offer for the combat suite and you say what the best and final offer incorporated.

<u>DR YOUNG</u>: Yes in paragraph 225 I say what it incorporated but I have indentified my evidence document there at 224 as an introduction as I wanted to address for going into the best and final offer itself.

<u>ADV SIBEKO</u>: What you have addressed at paragraph 224 is your DTI0440 is that correct?

DR YOUNG: That is correct yes.

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ADV SIBEKO: That is RMY39 which appears on paragraph 968 but that document, 968 seems to be a letter from Captain Abbot, J Kamerman it is a letter to the German Frigate Consortium and African Defence System dated 29 May 1999. It is a document which is redacted. Is that the document you are referring too?

<u>DR YOUNG</u>: Yes it is that document yes. It is a redacted version of thatdocument which I received.

ADV SIBEKO: You will see that in paragraph 224 of your statement you referred to a best and final offer submitted by JFC and ADS on 24 May 1999. Your 0440 appears to be a different document?

<u>DR YOUNG</u>: Yes, I am not saying that, that document is the BAFO it is the document to which I want to refer. Now I do not think that I would have received ADS's offer itself. I might have received or seen bit and pieces of it. I do not think or I certainly cannot remember it. What I did of course receive from the DoD under Pie Act is the DoD's response to that BAFO and that is what I wanted to address.

25 <u>ADV SIBEKO</u>: That documents is titled response to [indistinct] best and

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final offer submitted on 24 May 1999 as you set out in paragraph 224 of your statement?

DR YOUNG: That is correct yes.

ADV SIBEKO: You can then continue to comment and address that.

DR YOUNG: Okay, I think that it is very important to take note of the situation at this time. I have alluded to what I have alluded too I have addressed the conduct of ADS they way that they handled these negotiations. I think this puts it in a context going back all these years, 16 years ago. Of course the board part is that it is this context which led to the realities to the reason why I am here today.

Captain Kamermen on behalf of the DoD starts of fairly straight to the point when he says:

"Unfortunately despite our request for a best and final commercial offer that will meet our known vessel budget limitations as well our much reduced technical specification in scope of supply you have chosen to submit an offer that considerable exceeds the combined price for your last offers of 11 May 1998 for the platform as adjusted by reduction by performance or scope of supply and in 7 April 1999 for the combat suite.

So you offered price for the vessel is therefore completely unacceptable. In addition you do not appear to offer a single entity as a vessel contractor with who we may conclude and made an agreement a contractual model that is headed to be now explicit requirement one which you led you led us to believe until yesterday would indeed form the basis of your offer.

In short gentleman your price for the vessel has gone up and your

contractual model appears to hold no benefits whatsoever to us. Frankly we are disappointed and it is pointless to proceed towards a contractual baseline as previously planned until these main issues has been resolved.

This letter therefore addressed our main concerns arising from an initial examination of your offer, the resolution of which will allow us the latitude to continue with negotiation."

Then there is a lot of detail and unfortunately most of it is hidden from me which unfortunately for me which is irregularly unlawfully because the DoD were given no right by the Judge and his order to sever the documents. I will have to deal with that and move on. Then come to my page 2 and the combat suite. Paragraph 8.

ADV SIBEKO: Our page 969.

DR YOUNG: Read that:

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"Combat Suite Sub-Contracting Model, we take note that there is no price difference to us between the so-called part B segments and the co-called part C segments in that your offer includes a large cost redact out for the shift of just two segments being communication and electronic warfare to your schedule and performance responsibility from the situation pertaining in your offer of 7 April 1999.

We consider it bizarre that you should offer as a sub-contracting model with is more expensive than the acceptable model of 7 April. Your sub-contracting model has therefore revert to the price and condition situation offered on 7 April you offer amended accordingly.

25 Will redact stuff out, more redacted stuff out..."

Here we come to the IMS which is why, one of the reasons why I wanted to address the issue of the 5th system and the extra functionality and hardware. Here is gives address not by me but the Navy itself right on 20, what are we talking about here, 25 or 24 May which I think stems back to December of the previous year when these prices were put in.

<u>ADV SIBEKO</u>: That information management system that you want to talk about is item 30 of page 970.

DR YOUNG: That is correct, yes.

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"Information management system: The offer of 7 April 1999 had an IMS cost at R47 million and R1100 00 included a fifth system. The state acknowledges by yourselves that the offer was actually a total of R42 million which is basically what we would offer. There is no rational explanation for the current price of R77 million and increase of 80% within a two month period. The current price is totally unacceptable."

I think I might have mentioned I thought that it is R87 but is R77 million I think. Now there is a reference to a R47 million, a R42 million the one that I mentioned last time was of R68 million and then R90 sorry R89 million now it is R77 million. So I am afraid that I have been analising this for 15 years but I am still confused as to how this came about and where it came from. Of course it was just as unacceptable to the Navy and the DoD as it is to me now. There is just no rational. If I may emphasise the Commissioner's point about, certainly if there is not a meeting and [indistinct] a reasonable basis that is understandable. There is no basis for these prices getting shunted around. They are mainly upwards as I have just read out.

Then we come to item 14. The IMS study, I have talked about that before. This price is far too high for the envisaged work to be undertaken.

CHAIRPERSON: Maybe this might be the time to adjourn. Although I thought you were rounding up this point. Dr Young is referring to the IMS again. May we preserve that formally. Can we start on 09:00 on Monday?

<u>DR YOUNG</u>: If I may say, I would just like to carry on from this point on this document. We have not finished yet.

10 <u>CHAIRPERSON</u>: We can try and start at 09:00 on Monday. We will start at 09:00 not try [laugthing]. Thank you. Let us adjourn until Monday at 09:00. We will start at 09:00. Thank you.

(COMMISSION ADJOURNS)

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