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4 February 2014

Cross Examination of Mr. S. Zikode
Department of Trade and Industry

**'Final Report on an Impact Assessment Undertaken at
Denel SAAB Aerostructures (Pty) Ltd. Related to an
Aerospace Project within the National Industrial
Participation Programme (SDPP)'**

**PRIVATE AND CONFIDENTIAL
DEPARTMENT OF TRADE AND INDUSTRY
FINAL REPORT ON A IMPACT ASSEESMENT
UNDERTAKEN AT DENEL SAAB AEROSTRUCTURES
(PROPRIETARY) LIMITED RELATED TO AN
AEROSPACE PROJECT WITHIN THE NATIONAL
INDUSTRIAL PARTICIPATION PROGRAMME (NIPP)**

This report consists of two volumes.

Volume 1 – Final Report

Volume 2 – Exhibits



DEPARTMENT OF TRADE AND INDUSTRY

*Final report on an impact assessment undertaken at
Denel SAAB Aerostructures (Proprietary) Limited
related to an Aerospace project within the
National Industrial Participation Programme (NIPP)*

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Distribution:

Mrs. Teresa De Risi- Director Industrial Participation

1 copy

03 February 2010

Director: Industrial Participation
Department of Trade and Industry
Private bag X84
Pretoria
0001

Attention: Mrs. Teresa De Risi

Dear Mrs. Teresa De Risi

**FINALT REPORT ON AN IMPACT ASSESSMENT UNDERATKEN AT DENEL
SAAB PROPRIETARY LIMITED ON AN AEROSPOACE PROJECT WITHIN THE
NATIONAL INDUSTRIAL PARTICIPATION PROGRAMME (NIPP)**

Attached is a copy of our final report

The report has been prepared on the basis of our understanding of the mandate from yourselves.

This report has been prepared solely for the purposes of your impact assessment and should not be used for any other purpose without our prior written consent.

Please do not hesitate to contact us should you require further information.

Yours sincerely

NAD Auditors Incorporated

Per: Iqbal Ahmed

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Denel SAAB Aerostructures (Proprietary) Limited

related to an Aerospace project within the

National Industrial Participation Programme (NIPP)

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13. Conclusion

In the absence of specific deliverables, outcomes/ milestones and specific observable measures, indicators in the proposal, we were unable to ascertain the completeness of Saab deliverables or as to whether it has fully delivered in terms of its NIP obligations.

It is evident that Saab did contribute to implementing much needed processes and undertaking its management functions, with varying levels of success. However, this did not transcend in a turnaround of the DSA and creating a sustainable company as it appears that not much emphasis were placed on financial and performance outcomes, cost were outrunning revenue resulting in losses at unacceptable levels, assets were not being utilised at optimal capacity, the company is in need of additional funding and sales and were still plagued in some instances with the original problems such as late deliveries to customers, most contracts are loss making and have varying degrees of quality issues and no much needed new revenue streams were introduced, resulting in a new turnaround strategy being implemented.

If one utilises the turnaround of the DSA as the ultimate goal and measure barometer for all Saab's initiatives, then Saab has not delivered on its obligations in terms of the NIP credits awarded to it, which is evidenced by the cancellation of the management agreement and subsequent initiation of a new turnaround strategy. However, this non achievement of the turnaround must not be measured in isolation, and one has to take into account other factors which may have impacted this turnaround including:

- The strengthening of the rand against other major currencies;
- The current recessionary climate;
- Customer delays on contract such as the A400m
- Multiple redesign request made by customers;
- Long lead times from initiation to contract award for new business;
- High non- recurring costs which require financing at inception recovered sometimes years after they have been incurred;
- Complex and timeous supply chain;
- High costs of deliveries to customers as a result of location of the DSA

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It is apparent relating to the A400M that Saab added significant amount of value through their influence and reputation in avoiding the cancellation of the A400M contract which would have resulted in large amounts of penalties being paid by the DSA and renegotiating some of the legacy contracts in obtaining more favourable pricing.

In general there appears to be a consensus at the DSA that Saab contribution has virtually changed the DSA from what it used to be, but have underestimate the magnitude of the change required, and that most of the changes were process oriented and not a sufficient amount of attention was paid on performance in terms of output, outcomes and results by Saab management.

Of concern is the uncertainty surrounding the company to continue as a going concern in the long term as it is dependent on the successful implementation of the new turnaround strategy, access to additional revenue and the continued financial support of the shareholders. Should these interventions referred to above be unable to address the profitability and liquidity issues, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.