**DEPARTMENT: PUBLIC ENTERPRISES**

**REPUBLIC OF SOUTH AFRICA**

**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NO.: 753**

**DATE OF PUBLICATION: 18 MARCH 2016**

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| **753.     Mr A R McLouchlin (DA) to ask the Minister of Public Enterprises:**

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|  | (1) | With reference to the cancelled contract with Airbus in respect of eight A400M military transport aircraft, the fact that Airbus agreed to refund the sum of €835 million to the Armaments Corporation of South Africa (ARMSCOR), and that an indemnity was subsequently provided to Denel by the Government –  |
| (a) | why was an indemnity provided to Denel? |
| (b) | what were Denel’s obligations to – |
|  | (aa) | Airbus; |
|  | (bb) | ARMSCOR and |
|  | (cc) | the Government in respect of the specified contract. |
|  | (2) | (a) | how many more such claims are outstanding from Denel; and |
|  |  | (b) | what – |
|  |  |  | (i) | are the details of each one of the eleven claims made to date by Denel in terms of the indemnity; and |
|  |  |  | (ii) | amount was paid to Denel in respect of each claim; |
|  | (3) | has oversight taken place in respect of each of the eleven claims submitted by Denel; if not, why not; if so, in respect of each claim – |
|  |  | (a) | (i) | when; and |
|  |  |  | (ii) | where did such oversight take place, |
|  |  | (b) | who conducted such oversight; and |
|  |  | (c) | has such oversight resulted in a reduction of the relevant claim. |
|  | (4) | what is the breakdown of the current R63,1 million claim made by Denel?    NW871E |

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**REPLY:**

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|  | (1) | (a) | * Denel SAAB Aerostructures (“DSA”) was a joint venture formed out of an equity partnership between SAAB and Denel Aerostructures (“DAe”) in January 2007.
* Prior to the formation of the partnership, DAe entered into two off-set contracts following the eight (8) A400m aircraft order by ARMSCOR. The off‑set packages with Airbus were to supply airframe structures namely, the Wing-to-Fuselage Fairing (“WFF”) and the Top Shells (“TS”) for the A400M military aircraft.
* As a result of the exposures with regard to these contracts, a condition precedent to the joint venture was that the Government indemnifies DSA in order to de risk the contracts. The indemnity is for a maximum amount of R1.6 billion (ONE POINT SIX BILLION RANDS) over a fifteen year period. The Indemnity Agreement was concluded on 21 May 2007.
 |
|  |  | (b) | (aa) | As a program partner on the A400M, Denel has the obligation of the design, development, manufacture, and sole supply of the WFF and TS structures. |
|  |  |  | (bb) | Denel has no obligation to ARMSCOR. DAe is directly contracted by Airbus to deliver the WFF and TS structures to their assembly lines.  |
|  |  |  | (cc) | As contracted through the Indemnity Agreement, Denel submits a claim to the Department on an annual basis, supported by an audited financial report, fully governed risk mitigation plan and a program report. |
|  | (2) | (a) | From the R1.6 billion (ONE POINT SIX BILLION RANDS) indemnity cover, there is a balance of R359 million (THREE HUNDERED AND FIFTY NINE MILLION RANDS) remaining over the next 5 years.

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|   | **Amount**  |
| Capped Claim Value |  R 1,600,000,000  |
| Claim YTD |  R 1,240,676,952  |
| Balance |  R 359,323,048  |

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|  |  | (b) | (i) | To date there has been 10 (TEN) claims submitted by Denel. Details of the claims are on the table below. |
|  |  |  | (ii) | Amounts paid to Denel are shown on the table below. |
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| **Claim Number** | **Date Claim Submitted****(DD/MM/YY)** | **Period****(MM/YY)** | **Amount of Claim** | **Amount Paid** | **Balance of the Full Indemnity** **(over 15 years)** **R 1 600 000 000** | **Date of Payment****(MM-YY)** | **Status** |
| 1 | 31/07007 | 04/06 –06/07 | R 222,290,420 | R 220,980,584 | R 1,379,019,416 | Nov 07 | Paid |
| 2 | 22/08/08 | 07/07-07/08 | R 259,516,131 | R 257,639,637 | R 1,121,379,779 | Dec 08 | Paid |
| 3 | 20/05/09 | 08/08 – 03/09 | R 191,865,684 | R 191,865,684 | R 929,514,095 | Dec 09 | Paid |
| 4 | 28/10/09 | 04/09 –07/09 | R 103,500,000 | R 103,501,382 | R 826,012,713 | Dec 09 | Paid |
| 5 | 30/06/10 | 08/09 – 0310 | R 96,000,000 | R 78,155,111 | R 747,857,602 | Dec 10 | Paid |
| 6 | 13/06/11 | 04/10 – 03/11 | R 116,634,725 | R 116,254,986 | R 631,602,616 | Dec 11 | Paid |
| 7 | 28/05/12 | 04/11 – 03/12 | R 118,782,844 | R 118,782,844 | R 512,819,772 | Dec 12 | Paid |
| 8 | 18/05/13 | 04/12 – 03/13 | R 57,249,797 | R 57,249,797 | R 455,569,975 | Dec 13 | Paid |
| 9 | 29/05/14 | 04/13 – 03/14 | R 63,140,844 | R 63,140,844 | R 392,429,131 | Dec 14 | Paid |
| 10 | 25/05/15 | 04/14 – 03/15 | R 33,106,083 | R 33,106,083 | R 359,323,048 | Mar 16 | Paid |

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|  | (3) | Yes oversight has taken place.  |
|  |  | (a) | (i) | * As contracted in the Indemnity Agreement, Denel submits a claim to the Department on an annual basis, supported by an audited financial report, fully governed risk mitigation plan and a program report.
* When a claim is received, the Department appoints its own independent auditors to authenticate the claim as submitted by Denel.
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|  |  |  | (ii) | The Department’s auditors physically go and verify relevant documentation and Enterprise Resource Planning (ERP) systems. |
|  |  | (b) | The Department through its independent auditors. The Department conducts DAe plant visits at least twice a year to appraise itself of the A400M programme status.  |
|  |  | (c) | * In instances where discrepencies were discovered, the claimed amounts were reduced accordingly, as indicated on the table above.
* The value of the annual claims over the past 10 years has reduced from R221 million (TWO HUNDRED AND TWENTY TWO MILLION RANDS) to R33.1 million (THIRTY THREE POINT ONE MILLION RANDS). Furthermore, for the past 4 (FOUR) years there has been no errors between the amount claimed by Denel and the audited amounts by the Department.
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|  | (4) | The recent 2015 claim amounted to R33.1 million (THIRTY THREE POINT ONE MILLION RANDS). The R63.1 million (SIXTY THREE POINT ONE MILLION RANDS) was claimed and paid during 2014.

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|   | **Earned Sales** | **Cost** | **Commitments** | **Claim** |
| Serial Production and Ramp-up | R184,943,445 | R210,517,440 | (R15,988,815) | (R9,585,180) |
| Jigs/Tooling | RNIL | R1,726,787 | RNIL | (R1,726,787) |
| ILS & Freight | R NIL | R5,288,869 | R NIL | (R5,288,869) |
| ENG & MODS | R NIL | R16,505,247 | R NIL | (R16,505,247) |
| T O T A L | (R33,106,083) |

ACRONYMS:

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| ILS | : | Integrated Logistics Support |
| ENG & MODS | : | Engineering and Modifications |

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