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Zondo commission – Former Denel chair Mantsha takes the stand before Zondo

Former Denel board chairperson Daniel Mantsha kicked off his testimony before the commission of inquiry into state capture on Friday by defending his board's decision to suspend the company's top three executives in September 2015. In his opening remarks, granted to him by chairperson Deputy Chief Justice Raymond Zondo, he said it was done against a backdrop of a heavily indebted parastatal that was not getting much in terms of new business.

The board, he said, had to make a quick decision upon its arrival in mid-2015, when it found Denel in the midst of a debt crisis, created partly by a decision of then CEO Riaz Saloojee and CFO Fikile Mhlontlo in the financing of Denel's acquisition of Land Systems South Africa (LSSA). "By the time my board came in, Denel was already a sinking ship. The debt levels were too high …the advice at that point was that Denel could not service any debt, and if Denel wanted to take any debt, like LSSA, it must request the sovereign to try and put up the money."

The board was, however, committed to the company and had to make decision to save Denel, added Mantsha. A red herring, however, was the manner in which management presented the details of the transaction at its first meeting of 10 September. There, Saloojee and Mhlontlo shared the details of the LSSA transaction, which was at a cost of R850-million. To finance the purchase, Denel sought two loans from two separate banks, Nedbank and Absa.

"The situation was not getting better, but the applications were sent. The [public enterprises] department was sensitised on the matter and one appreciation should be that Denel, unlike Eskom, does not get any guarantee from this thing. If the South African defence force wants equipment, they can go to anyone else, including Denel. So Denel does not have a reserved market," said Mantsha.

"It's a business that requires serious agility, and you have to take big decisions and try to execute because it's a very difficult market."

Allegations that the board got rid of the executives in order to enable state capture are not true. The decision by the board to venture into India by way of Denel Asia was not in any way linked to the suspensions. "It is not true that the suspensions of the executives had anything to do with the move to India. The suspension of the executives had to do with a transaction that they presided over during our appointment as a board.

"When we started our work on 10 September, we were then told Denel must pay R445-million to Nedbank by 30 September. That was a shock to us," said Mantsha.

They probed how this came to be. "The manner in which the transaction was structured, and the information that was presented to the board, gave rise to the suspension of the CFO and the CE."

According to Mantsha, the board was governed by conditions set by National Treasury when it approved its appointment. One of these was that the board should make an "irrevocable undertaking" that Denel would not go to the state to ask for funding to finance any aspect of the transaction.

In a discussion with Saloojee at the time, Mantsha gave him a frank appraisal of the situation from the board's perspective and the deliberations of the audit and risk committee (ARC). Saloojee's response to this was "chair, please don't get us fired," said Mantsha.

But the crisis remained and the loan was a real threat. "Nedbank was angry because, when the money was borrowed from them, Nedbank was informed - this is my understanding - that 'give us R455-million, the R400-million we will pay from our own pockets."

But on realisation that the balance of R400-million was itself a loan from Absa, Nedbank's relationship with Denel soured. On the other hand, Absa was given security for R400-million which was the money that was ring-fenced by the company in terms of the Hoefyster project, explained Mantsha.

"The relationship with Nedbank at the time was not good because they felt they were not treated equally like Absa."

At this point the board sought to get a deal with Nedbank to extend the terms of its loan, and an agreement was reached to delay the payment deadline, with the help of acting executives and members of ARC, who negotiated with the bank.

Responding to Mhlontlo's evidence that the board ignored him for 11 months after the suspension until it sought a settlement agreement with him, Mantsha said the disciplinary process of the executives was not a priority for the board at that time.

Mantsha continues to give evidence.

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