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Zondo Commission – Denel board appointed without following proper processes

Former minister in the Department of Public Enterprises (DPE) Lynne Brown brought changes to the Denel board in mid-2015 that contributed to its financial freefall and did not speak to the needs of the arms company at that time. A decline in its financial performance followed within a year after the appointment of an “ill-equipped” board that was out of its depth. This is the testimony of department’s deputy director-general, Kgathatso Tlhakudi, who gave evidence before the commission of inquiry into state capture on Monday. The commission is at this point focusing its attention on state-owned entities, and Denel takes centre stage this week.

Tlhakudi revealed how the arms manufacturer had just been starting on a positive trajectory in terms of its finances, under the leadership of the previous board which served until July 2015, when Brown rotated them after Denel’s annual general meeting (AGM). Only Sparks Motseki, an insignificant member according to Tlhakudi, was retained, for reasons not shared with executive management. Media reports around the time revealed that Motseki has an interest in Gupta-owned Shiva Uranium mine. It was under the watch of the board in question that the ill-fated Denel Asia venture occurred.

The AGM was the first to be addressed by Brown after she was appointed minister following the 2014 national election.

Previous testimony by current DPE minister Pravin Gordhan revealed that Denel Asia was formed to benefit Gupta associate Salim Essa, who is registered as a 50% owner, and is in turn linked to VR Laser, a company which has Duduzane Zuma and Rajesh Gupta as co-owners. Its registration was processed a day after Nhlanhla Nene was dismissed as finance minister in 2015, when Zuma had appointed Des van Rooyen in his place. A consequence of Denel Asia is that the South African government is now stuck with the entity, due to legal bureaucracy and the near impossible task of deregistering it on the Hong Kong stock market.

Brown would later suspend members of Denel’s executive, including former CEO Riaz Saloojee and CFO Fikile Mhlonto, while COO Jan Wessels was redeployed to one of the company’s other units. Reasons publicly cited by Brown at the time for the suspensions was that the pair had misrepresented Denel’s financial results of the previous year. They were suspended along with company secretary Elizabeth Africa in September 2015, two months after Brown had praised the work they were doing – with the guidance of the outgoing board – in July.

Within two years of the new board being in office, said Tlhakudi, there was a drastic drop in performance, with Denel’s revenue halved. This is partly because the board’s corporate plan for that year – a document against which the company’s performance is measured by the office of the minister – had been limited and was less ambitious than previous years. The result of this, he added, was that the business went into a freefall.

The very appointment of the board became a point of contention for Denel leadership, explained Tlhakudi, because proper processes were not followed. Unlike in previous instances, where a sitting manager sought the input of the executive team on the skills set required within the board, the first

time Tlhakudi learned of the recommended board members was when Brown had run with the process herself without consultation.

The DPE first placed an advert in the media in October 2014 to invite applications from people wishing to serve on the board. This was in anticipation of the approaching financial year end in a few months. Common practice in the department was to prepare a board nomination list in advance of the AGM, usually held in the middle of the year. The nomination list would then be given to the minister, who would take it on advisement of the rest of Cabinet, via a memo, and then the decision and announcement would be made there. In this instance, a list had already been prepared in November 2014, without the input of the executive team. It was put to Cabinet, but rejected, before being accepted later.

Commission chairperson, Deputy Chief Justice Raymond Zondo, asked Tlhakudi if any other minister had conducted themselves in the way that Brown did, to which Tlhakudi said her predecessor Malusi Gigaba, as well as Gordhan, both encouraged consultative leadership, which many employees appreciated.

Tlhakudi further denounced the alleged conduct of his former colleagues, former acting CEO Zwelakhe Ntshope and his counterpart in Denel Land Systems Stephan Burger, who are reported to have told staff members well before the 2015 AGM that they knew and had had interactions with members of the incoming board. This implied that they knew who they were before a formal announcement had been made by Brown to the rest of staff and to the public.

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