

Copelyn in scrap
over art collection P9

Ian Khama's
growing intolerance P34

Property investors
in for dividend shock P39

fm

financialmail

www.financialmail.co.za

August 10 - August 16, 2017

SA: R29.20 inc Vat

Botswana: P29.20

Swaziland: SZL29.20

Zimbabwe: US\$5

ISSN 00152013
9770015200064

Denel's lying liars

How the Guptas
captured Denel



See our online coverage of **Zuma no-confidence vote**

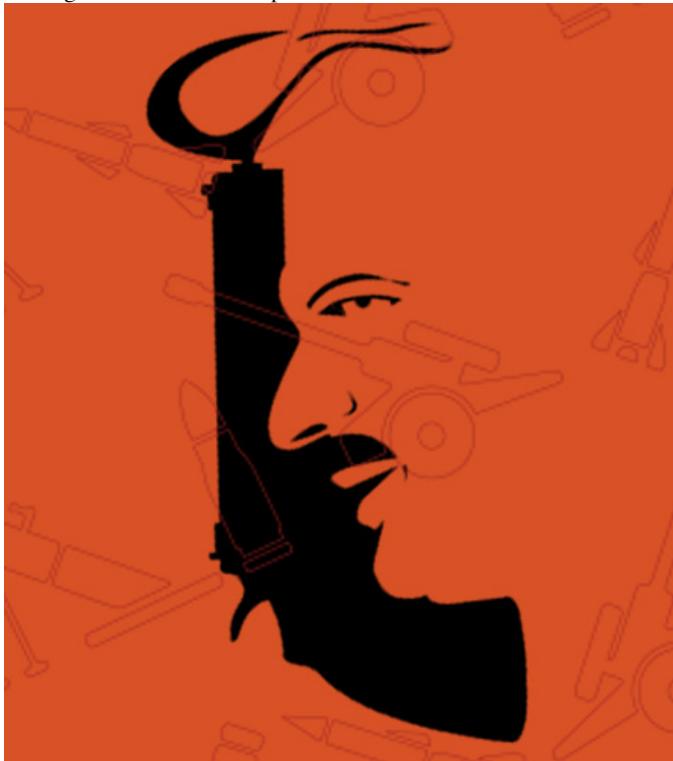
Denel's lying liars

How the Guptas captured Denel

Leaked e-mails expose how Denel's CEO lied under oath to protect a dubious Gupta arms-deal partnership, as well as many other cunningly plotted moves involving high levels of government

BL PREMIUM

09 August 2017 - 09:11 Stephan Hofstatter



Riaz Saloojee must have felt optimistic about the future when he stepped off the plane from London in September 2015, returning from the world's largest arms bazaar with public enterprises minister Lynne Brown.

Under Saloojee's leadership weapons maker Denel's aggressive marketing forays into the Middle East and Latin America were beginning to bear fruit.

In 2012 he had taken over an ailing state entity that needed government bailouts to stay afloat. Since then Denel's revenues had almost doubled, profits had grown close to seven-fold and its order book stood at a record R35bn.

Brown was so pleased with Saloojee's performance that she wanted him to stay on for another five years after his contract as chief executive expired in January 2016.

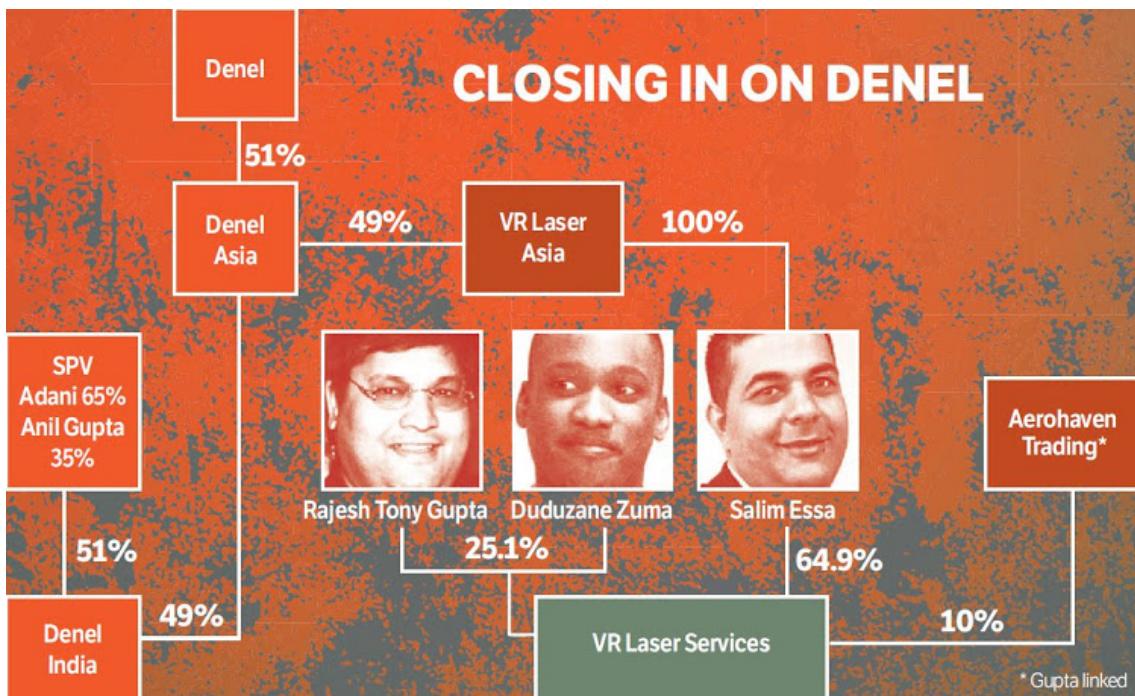
But back in Denel's boardroom a shadowy cast of newly appointed directors had other ideas. Judging by the events that followed, their first task was to remove Saloojee (a former Umkhonto weSizwe commander) to pave the way for a dubious deal worth R100bn between Denel, the Gupta family and their business partner, President Jacob Zuma's son Duduzane.

The Guptas tried to hide their involvement by structuring it through a company registered in Hong Kong, VR Laser Asia, and setting up a secret subsidiary in India.

But e-mails leaked to the Financial Mail and other media provide evidence that the Guptas were behind the deal all along, with the full knowledge and participation of Denel's top brass and possibly also key officials in Brown's department.

Denel's Gupta partnership has sparked a battle between the arms maker and treasury, which says proper procedures weren't followed.

Treasury has withheld approval, leaving the deal in limbo. But Denel appears determined to revive it.



In March this year Denel went to court in a bid to have the partnership declared lawful. On May 24 it told parliament it remained the best way to break into the Asian arms market, describing reports that Denel had been “captured” by the Guptas as “fake news”.

The same denials were repeated by the Guptas’ disgraced UK public relations firm, Bell Pottinger, to journalists around the world.

Last year Bell Pottinger’s Philip Peck wrote a threatening e-mail to online newsletter Asia Sentinel, complaining about an article it had published. Peck insisted VR Laser in SA was “an entirely separate entity” from VR Laser Asia, and that the Guptas were “not part of the joint venture with Denel”.

“Please can any mention of the Gupta family’s involvement in a joint venture with Denel be removed from the article,” said Peck. “We are currently seeking corrections to a number of news titles that have published false allegations and are pursuing legal action where appropriate.”

Denel’s state-capture denials were demolished four days after the parliamentary hearing when the Gupta-leaks storm broke, laying bare in pornographic detail just how compromised Denel’s top brass was.

The leaked e-mails also bolster a related case heard in court last week, brought by the Oppenheimer family. Judgment was reserved.

The Oppenheimers blame Denel for inducing Malusi Gigaba, (at the behest of the Guptas) to block their plans to offer international customs and immigration facilities at their luxury terminal at OR Tambo airport. Oppenheimer aviation company Fireblade leases the premises from Denel.

Gigaba, now finance minister, was home affairs minister at the time.

Fireblade argued in court papers that Denel’s dubious Asian partnership with the Guptas lay behind its sudden switch from enthusiastic supporter to implacable opponent of the project. They accuse the Guptas of wanting to hijack their airport terminal.

Denel has furiously denied this. Last year its acting chief financial officer, Odwa Mhlwana, told parliament the owner of VR Laser Asia “is certainly not a member of the family we are said to be captured with. There is no ownership of the Gupta family in this business.”

In an affidavit filed earlier this year Saloojee’s successor, Zwelakhe Ntshepe, denounced the accusations as “scandalous, vexatious, spurious, speculative [and] defamatory”.



Zwelakhe Ntshepe: Denel has never entered into a joint venture with an 'Indian entity'. Picture: BUSINESS DAY

"Denel," Ntshepe declared under oath, "denies that it has at any time been involved in the establishment of a business with the Gupta family [and] has never entered into a joint venture with an 'Indian entity' as alleged."

The leaked e-mails show this up as a lie, revealing that Ntshepe was intimately involved in facilitating the Guptas' Indian arms-deal grab, which Denel is still determined to pursue.

To understand how the Guptas hijacked Denel's Asian expansion strategy we need to rewind two years to July 24 2015.

Three weeks before Saloojee's trip to London, Brown replaced virtually the entire Denel board. Many of the new directors were politically connected but had little or no comparable business experience or engineering expertise.

The only board member to keep his job was Nkopane “Sparks” Motseki, formerly treasurer of the ANC’s Umkhonto weSizwe Military Veterans’ Association (MKMVA), who has benefited personally from his association with the Guptas through shares he owns in one of their mines. He has also boasted of his friendship with Duduzane Zuma. The leaked e-mails show he was flown to Mumbai and New Delhi at the Guptas’ expense.

The MKMVA was also a direct beneficiary of Gupta largesse through various shareholdings and having its functions funded by the family.



Daniel Mantsha: Played a key role as arms-deal fixer for the Guptas

Perhaps the most compromised candidate was Denel’s newly appointed chair Dan Mantsha, a shady lawyer from Limpopo who was struck off the roll of attorneys in 2007 for embezzling his clients’ funds, before being readmitted four years later.

Mantsha later became a legal advisor to former communications minister Faith Muthambi, who could face criminal charges for sharing confidential cabinet memos with the Guptas and Duduzane Zuma about changes to policy in telecoms, a sector they are heavily invested in.

Mantsha would play a key role as arms-deal fixer for the Guptas while they wined and dined him in Dubai and India.

He was joined on the new board by Thamsanqa Msomi. The Gupta leaks revealed that he had helped to fast-track visa applications for Gupta associates when he worked at home affairs. Msomi has said there was nothing unusual or untoward about the assistance he gave.

He has served as chief of staff or adviser in different portfolios to Gigaba, who has also been tainted by his association with the Guptas.

Earlier this year the EFF released letters showing Gigaba had bent over backwards to fast-track SA citizenship for the Guptas. The party has also laid corruption charges against Gigaba for his alleged role in a R50bn locomotive contract from which the Guptas benefited. Gigaba has denied any wrongdoing and says the moves are part of a campaign to tarnish his name.

Either way, now that evidence has come to light that Denel was giving the Guptas preferential access to lucrative arms deals, it is clear that the relationship they enjoyed with key members of Denel’s top brass was highly inappropriate, if not corrupt.

Denel has previously said it would not comment on the leaked e-mails. Repeated attempts over four weeks to obtain responses to detailed questions from Denel, Mantsha and Ntshepe proved fruitless.

The Gupta family and businessman Salim Essa, who appears to be a front for the family in this deal, did not respond to detailed questions either.

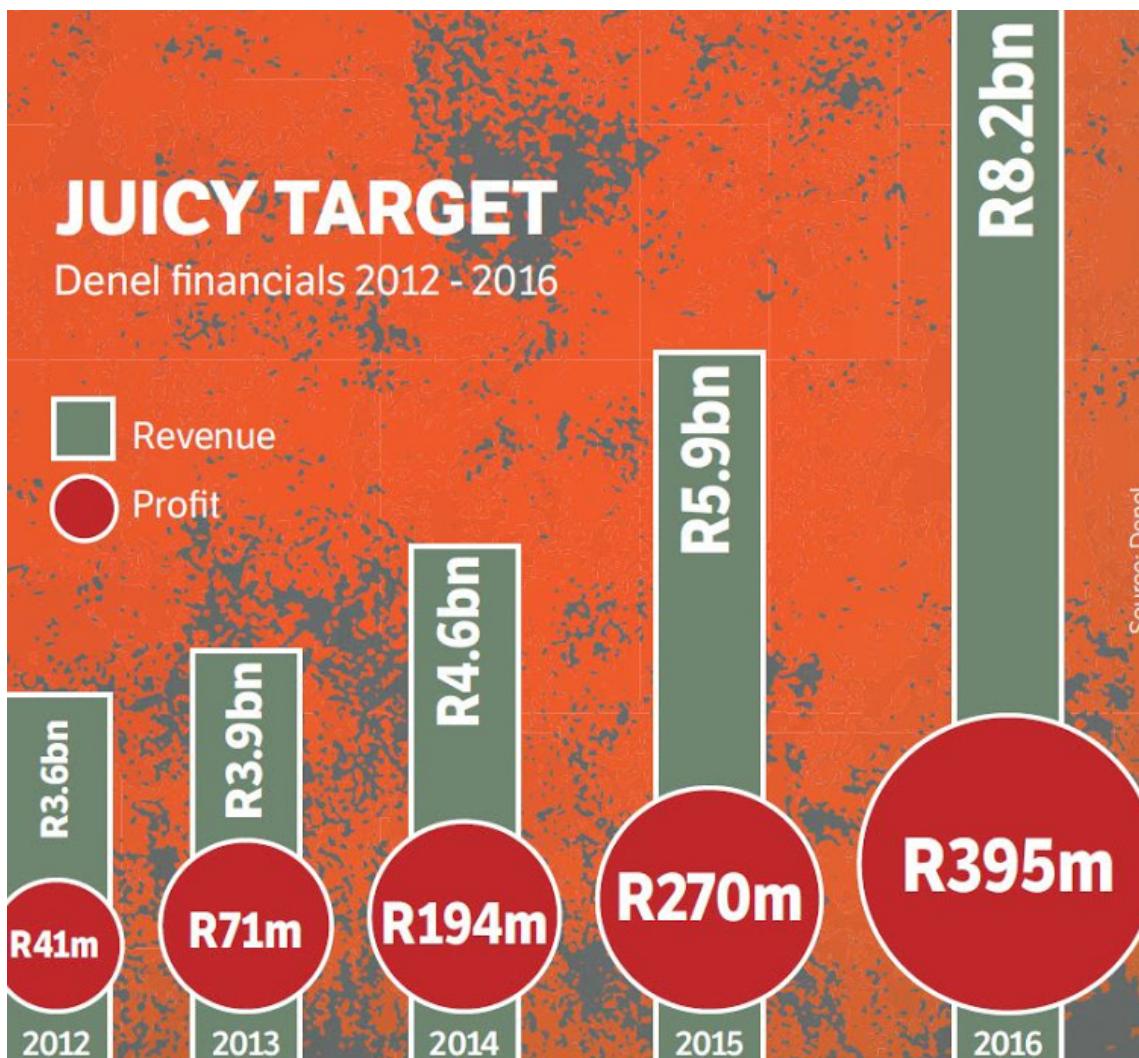
Saloojee appeared unaware of all this when he attended his first meeting with the new board on September 10 2015, before going to London. One of the topics under discussion was how to penetrate the Asian market.

“Denel was in the process of establishing an Asia strategy” as part of its global expansion under way in Africa, the Middle East and Latin America when the board reshuffle occurred, he said in an interview last year.

Defence spend in the Asia Pacific region was expected to grow to US\$612bn by 2018. India, as the world’s largest arms importer, was first prize.

Denel had been blacklisted from operating in India after a kickback scandal in 2005, but in late 2014 an Indian court threw the case out. The door to what could become Denel’s biggest market, especially for artillery pieces, was wide open again.

Saloojee explained that Denel typically formed joint ventures “with credible companies that have a foothold in the target market and a technical base”. India had “a developed market with huge defence spend” and was Denel’s main target.



The board meeting wrapped up without the planned Gupta partnership being raised once, he said.

“The question was: how do we establish a foothold? I said, when I am ready I will come and present a strategy for Denel in Asia. There was no mention of VR Laser Asia. It was not a feature of any discussions — it all happened after we were suspended.”

Saloojee said he would never have approved the VR Laser deal if he’d been in charge when it was signed off. There were too many unanswered questions.

“Why Hong Kong? We don’t do business in Hong Kong. If this company was doing business off-shore, how would the financial model work?” he asked. “Logically you would establish a company in the country where you would operate, with a local footprint and expertise.”

VR Laser Asia was “just a shell company with no foothold in the Asian market,” he said. “You explain to me how we were going to do business with a Hong Kong company that’s not even there.”

But as the recent leaks and court filings show, by then the Guptas and their new allies at Denel were putting the finishing touches to a joint venture that would allow them to buy arms from Denel at preferential terms and grant them exclusive rights to pursue arms deals in India worth R100bn.

A financial projection shows the project aimed to break even within a year, with profits rising to R655m within five years and to R1.125bn three years later. VR Laser Asia would loan the venture R100m, to be repaid from profits.

But first the board apparently needed an excuse to get rid of Saloojee and replace him with someone who could be relied on to do the Guptas’ bidding.

While Saloojee was trying to flog Rooivalk helicopters and Mokopa missiles in London, the board’s new audit and risk committee started hunting around for documents related to Denel’s acquisition of a majority stake in British arms maker BAE’s armoured vehicle division in SA for R641m.

On his first day back at work, Saloojee was accused of causing a cash crunch at Denel by changing the repayment terms of a R455m loan from Nedbank from five years to six months. He was handed a list of allegations and told to respond within two days or face suspension.

On September 24 he was given a stark choice: take a golden handshake of three months' pay or face a full disciplinary hearing. When he refused to capitulate he was frogmarched out of the building, never to return.

Denel repeated the same arguments during its last parliamentary appearance in May this year.

But Saloojee insisted the charges were bogus. He said he'd been at an advanced stage of finding an equity partner for the BAE deal, which would have solved Denel's liquidity crunch.

"We followed due process. If they had followed the strategy we had they would not have these problems," he said.

The Gupta leaks lend further credibility to his version of events. They show that by the time he was marched out of the Denel headquarters, negotiations were already well under way with the Guptas.

A key document contained in the leaks is a "co-operation agreement" between Denel and VR Laser Services, a firm part-owned by the Guptas and Duduzane Zuma and based in SA.

The agreement was dated July 29 2015 and circulated a week later, on August 5 — more than a month before Saloojee told the new board he hadn't finalised his Asia strategy yet, let alone decided on a strategic partner.

The document also provides further evidence that Denel and the Guptas were deliberately misleading the public about their partnership.

It states that the parties would form a new company called Denel Asia to be registered in Hong Kong to market, sell and manufacture "any products currently manufactured or sold" by Denel, with Ajay Gupta's eldest son Kamal Singhala designated as one of its directors.

While all subsequent agreements refer to Denel's partnership with VR Laser Asia, this is the only draft that uses the name of VR Laser Services, an engineering firm based in Boksburg, Gauteng. It specialises in steel cutting and manufacture, especially for the defence industry.

VR Laser Services is owned by Rajesh (Tony) Gupta, Essa and Duduzane Zuma. VR Laser Asia is wholly owned by Essa.

Though Essa has close business ties with the Guptas and is widely regarded as a front for their interests, the switch from VR Laser Services to VR Laser Asia was presumably done to provide Denel with a figleaf of plausible deniability that it was doing business with the Guptas.

This flies in the face of repeated subsequent denials by Denel in press statements, in parliament and under oath in court papers that the Gupta family had anything to do with the partnership.

The July agreement was sent by VR Laser Services CEO Pieter van der Merwe to Singhala, Tony Gupta and someone who called himself "Business Man".

Other leaked e-mails have shown that "Business Man" appears to be Richard Seleke, the director-general of Brown's department of public enterprises, which has jurisdiction over Denel, Eskom and Transnet — the three state entities where Gupta companies have benefited from dubious contracts worth billions of rand.

In June 2015 "Business Man" sent an e-mail to Duduzane Zuma stating: "Please find attached my CV and supporting documents," signing off, "Regards, Richard".

Among the referees on his CV, Seleke, who was head of economic development in the Free State government at the time, lists the then Free State economic development MEC Mosebenzi Zwane, who would later play a pivotal role as mining minister in what former public protector Thuli Madonsela described as the Guptas' hijack of Optimum mine from Glencore. "Business Man" also slipped sensitive documents from Eskom to the Guptas while they were negotiating the purchase of Optimum.

Seleke has denied that the e-mail address belongs to him or that he is "Business Man".

The leaks also show that around the same time that the Guptas were setting up their Denel deal, the arms maker's new chairman, Mantsha, was sending the Guptas his utility bills and flying to India on their private jet.

The documents show the Guptas flew Mantsha to Mumbai on August 6, sharing a flight with Tony Gupta and Essa, and put him up at the ITC Maratha hotel in Mumbai for two nights.

By October, with Saloojee out of the way, draft agreements for the Gupta deal were openly being shared with Denel officials including Ntshepe, as well as "Business Man".

At the same time, the Guptas were secretly setting up a subsidiary partnership to be called Denel India, cleverly structured to hide their beneficial ownership.

Technically the Guptas don't have any shares in Denel Asia, which is 51% owned by Denel and 49% by Essa. The documents show Denel India was to be 49% owned by Denel Asia, with the remaining controlling stake owned by Indian conglomerate Adani Enterprises.

But Adani's shareholding was to be diluted through a special-purpose vehicle, 65% owned by Adani and the remaining 35% by a close relative of the Saxonwold family, Anil Gupta, leaving the Gupta family and their associates with a controlling stake in the vehicle that would drive Denel's re-entry into the Indian arms market.

Anil Gupta is married to Achla Gupta, the sister of Tony, Atul and Ajay Gupta. Anil and Achla's daughter Vega Gupta was married to Aakash Jahajgarhia in a lavish ceremony at Sun City in 2013 that, an investigation by the amaBhungane Centre for Investigative Journalism revealed, had been [bankrolled by SA taxpayers](#) through funds destined for a land-reform dairy project in the Free State.

The e-mails show Seleke, who was soon to be appointed director-general of public enterprises, was kept in the loop at every step (if he is indeed "Business Man").

Denel India brought a whole new cast of colourful characters to the pageant, most notably Indian businessman Parasmal Lodha, arrested on money-laundering charges in India last December. During raids, police seized diamonds, rubies, jewellery and cash suspected of belonging to Lodha and documents related to a Swiss bank account. He was released on bail in May.

Indian media have linked Lodha to suspected international drug kingpin and Mumbai terror-attack mastermind Dawood Ibrahim.

Lodha did not respond to a request for comment.

The leaked e-mails show that Lodha had gone through the draft agreements between Anil Gupta and Adani, after he had "interacted with [the] Adani team", had provided Tony Gupta with advice on how to structure the Denel India deal, and had flown on the Gupta jet with Duduzane Zuma, Tony Gupta and Essa.

AmaBhungane previously reported that Lodha had probably introduced the Guptas to Adani Group founder and chairman Gautam Adani, who is reportedly close to Indian prime minister Narendra Modi.

AmaBhungane said Lodha was instrumental in arranging high-level meetings when Adani was a guest of the Guptas in SA in November 2015.

The report said Lodha's assistant had informed an Adani staffer: "Meeting with the [SA] president, ministers and CEOs of mining, power and port has been arrange [sic] on 27th and 28th ... car and necessary security will be arrange [sic] by Mr Gupta."

The next hurdle for Denel and the Guptas was obtaining approval for the partnership from the department of public enterprises and treasury, a condition of a R1.85bn government guarantee. However, the leaked e-mails and court documents suggest Denel opted to keep both departments in the dark about Denel India.

At the end of October 2015 Mantsha sent a "pre-notification" letter to Brown and then finance minister Nhlanhla Nene, outlining the rationale for partnering with Essa's company VR Laser Asia.

Even though the company was then little more than an address for a building that housed a nail salon, Denel boasted it was "already established in the region [and] has an established network of potential business sources that will provide immediate and urgent" market access.

The wider Gupta family's beneficial ownership and control through Denel India was not disclosed.

The following month, on November 24, Mantsha received a confidential letter from Brown, granting Denel approval to submit a formal application to treasury. He forwarded it to Gupta executive Ashu Chawla.

While Mantsha was secretly hatching partnership plans with the Guptas, they were apparently using their influence on Denel to muscle in on the Oppenheims' Fireblade airport terminal at OR Tambo.

On November 14 2015 the Guptas' Bombardier ZS-OAK flew from Moscow to Johannesburg. Among the passengers on board were Duduzane Zuma, Tony Gupta and Mpumalanga premier David Mabuza, who'd been treated in a Russian clinic for poisoning.

Tony Gupta asked the pilot to tell Fireblade director Robbie Irons that the company needed to find black empowerment partners — selected by the Guptas — if the Oppenheims wanted then home affairs minister Gigaba to grant their terminal international rights, according to an affidavit by Irons.

According to another pilot, when this ploy failed the Guptas induced Denel to block Gigaba's approval, Irons said.

Though Gigaba and Denel have strenuously denied the allegations, the fact is that Gigaba only rejected the Oppenheimer application because Mantsha vetoed it — even though Denel had on previous occasions offered its "full support", according to internal documents.

In their case heard by the north Gauteng high court last week, Fireblade argued that Denel only reversed its support because it had "entered into a dubious joint venture" with the Guptas.

"Denel's flip-flops appear to be motivated by unlawful or at least improper considerations," Fireblade said in an affidavit.

Another key role player for Fireblade's application is the Airports Company of SA (Acsa), which leases the terminal land to Denel.

Acsa has always been a strong supporter of the Oppenheimer terminal for commercial and safety reasons: it would reduce the number of private jets using OR Tambo's main terminals and attract wealthy international customers.

Though Acsa granted approval in 2014 there are fears this could be reversed if the Guptas "capture" Acsa. "We are told it is a real threat," says one source.

The Financial Mail previously reported how the Gupta family allegedly stacked the board of Acsa with their employees in an apparent [attempt to control SA's points of entry](#) and secure preferential treatment when flying in and out of SA, including fast-tracking customs and immigrations formalities.

This would make it easier for them to [smuggle cash and gems](#) out of SA, an allegation that has already been levelled against the family at the Oppenheims' Fireblade terminal, though they dismissed this as "fake news".

To complete their arms-deal grab the Guptas still needed the green light from treasury, which had proved an obstacle to their ambitions to secure other state contracts.

On December 11 their application landed on the desk of David Des van Rooyen, an ANC backbencher and former small-town mayor who'd been appointed finance minister the day before. Once again there was no mention of Denel India. It later transpired that Van Rooyen enjoyed a cosy relationship with the Guptas.

Former public protector Madonsela's state capture report and court filings suggest he was a regular visitor at the Guptas' home, that one of his advisers slipped a confidential treasury document to Gupta associates two days after he became finance minister, and that Essa's financial advisory firm, Trillian, had advance warning of his appointment. Essa has since sold his controlling stake in Trillian.

Van Rooyen lasted only four days before being moved to the post of co-operative governance & traditional affairs minister, where he clearly still had his uses for the Guptas.

The leaked e-mails show that during the Christmas holidays he joined a long line of cabinet ministers and heads of state entities that dished out huge contracts to the Guptas, to be put up by the family at the five-star Oberoi hotel in Dubai. The Oberoi is within spitting distance of the world's tallest building, the Burj Khalifa, where Duduzane Zuma bought a luxury pad for R18m a month earlier. The leaks show that Van Rooyen was booked into the Oberoi on December 21 2015.

The Times revealed that barely a week later, on December 27, the [Guptas booked Brown's personal assistant](#) Kim Davids in at the Oberoi. She was chauffeur-driven to the Guptas' mansion in the suburb of Emirates Hills at L35 Lailak Street the next morning and checked out on January 1 2016.

Shortly afterwards, on January 3 2016, the Guptas put Mantsha up at the Oberoi, arranging a ride for him to their villa at 7am the next day.

We don't have any records of what they discussed. But we do know negotiations about Denel India continued throughout the holidays, with e-mails circulated between Adani executives, Essa and Tony Gupta.

By the end of January 2016, Denel appeared to be the only surviving government champion of the deal.

Minutes of a meeting with treasury on January 27 show that even officials from Brown's department believed "the business case was weak".

They raised several objections.

VR Laser's strategy to penetrate the Indian arms market was "not convincing" because it "has no proven experience or business operations in Asia", it survived on shareholder loans and there were "red flags on characters that are politically exposed".

This didn't deter Denel. Two days later it announced it had formed a joint venture with VR Laser Asia in Hong Kong to sell artillery, armoured vehicles, missiles and drones to the Asian market. Ntshepe called it a "bold step" for Denel. He didn't disclose the Gupta shareholding.

Just over a fortnight later, on February 16, Ntshepe convened a shareholders' meeting of Denel Asia in Pretoria, where he was appointed chair.

Denel land systems head Stephan Burger, Ajay Gupta's son Kamal Singhal and Pieter van der Merwe, CEO of part-Gupta-owned VR Laser Services, were appointed as directors.

Extracts of minutes signed by Ntshepe show the new board was authorised to form a joint venture between Denel Asia and Adani, to be called Denel India. Anil Gupta's proposed shareholding is not disclosed.

Treasury, however, refused to approve the deal and Brown has instructed Denel Asia not to trade.

A key concern raised during meetings and in scathing letters was that the fiscus might have to bail out Denel if its assets were used as collateral for VR Laser's R100m loan. Denel's previous misadventure into the Indian market had cost the taxpayer R500m, with nothing to show for it.

In an affidavit filed in May 2017 in response to Denel's court application to have the deal declared lawful, former treasury director-general Lungisa Fuzile cast doubt on Denel's claims that it wouldn't cost taxpayers a cent, citing the arms maker's exchange control application to the Reserve Bank "to make a capital investment in the JV [joint venture]".

"The proposal for the applicant to sell products at preferential terms to the JV is not in the best interests of the applicant or government," he concluded dryly.

In Denel's founding papers Ntshepe blames former finance minister Pravin Gordhan, who took over from Van Rooyen until he was replaced by Gigaba in March this year, for blocking the deal because of his animosity towards the Gupta family. He accused Gordhan of waging "a personal and public war" against any entity perceived to be

Gupta-linked, "such as VR Laser Asia through its shareholder, Mr Salim Essa, who is perceived to be associated with the Gupta family".

Gordhan had "sabotaged the proper functioning of a parastatal and sacrificed Denel's interest to further his own political war with the Gupta family", Ntshepe concluded.

Ntshepe makes no mention of the joint venture's secret Gupta shareholding through Denel India.

Soon after Denel launched its court application, Zuma sacked Gordhan and replaced him with Gigaba.

But far from endorsing the Gupta arms deal as expected, Gigaba has come out publicly against it, asking Denel to withdraw its court proceedings against treasury.

Gigaba "remains opposed to the transaction for reasons stated in the national treasury affidavit to court", his ministry said in a recent statement.

Adani, too, has since distanced itself from the Gupta partnership. The company "was neither comfortable with the partners involved nor with the proposed proposition", a spokesman was quoted saying in The Economic Times of India last month.

Even Brown, who has so far largely remained silent, said last week through her spokesman Colin Cruywagen that she had "reiterated her discomfort to Denel" about its court action. "However, Denel is an independent entity and the board has the right to pursue legal avenues to resolve matters it perceives to be hampering its ability to perform its fiduciary responsibilities."

Brown had asked her director-general — probably the Gupta conduit "Business Man" — to mediate with treasury while she engaged with Gigaba. She denied she'd ever faced pressure from the Guptas to remove Saloojee to pave the way for the deal. "There was no pressure from anybody regarding VR Laser."

Asked why Brown had failed to suspend Mantsha despite the damning evidence against him, Cruywagen said: "With respect to allegations contained in leaked e-mails, the minister has clearly articulated her support for the investigation by the Hawks, and is in addition in the process of reviewing the boards of all state-owned companies in the portfolio."

