**DEPARTMENT: PUBLIC ENTERPRISES**

**REPUBLIC OF SOUTH AFRICA**

**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NO.: 3729**

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| 3729 Ms N W A Mazzone (DA) to ask the Minister of Public Enterprises:

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| 1. What are the detailed reasons for Denel’s acquisition of BAE Land Systems SA, which led to Denel exhausting its cash reserves;
2. what has been the detailed, real impact of the specified acquisition on the financial status of Denel;
3. will Denel’s exhaustion of cash reserves affect its employees and contractors; if so, what will the extent of this impact be;
4. will all (a) employees and (b) suppliers be paid on time and in full;

 (5) what total amount is owed by Denel to its contractors?  NW4413E |

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**REPLY:**

(1) Cash Reserves

1. The impression that the acquisition of Land System South Africa (LSSA) by Denel led to the exhaustion of Denel’s cash reserves is not correct. The acquisition was funded separately from Denel’s cash reserves. The acquisition is fully financed by financial institutions and has had no impact on the cash reserves of Denel.

Strategic Relevance of LSSA

1. LSSA is of critical sovereign importance to the country from a national security point of view, as the company is an Original Equipment Manufacturer (OEM) and continues to support and maintain all strategic military vehicles and some landward logistical equipment of the South African National Defence Force (SANDF). These vehicles include the Olifant Main Battle Tank (weapon platform and turret); Ratel; Rooikat Platform; Samil logistic trucks; Casspir; Mamba; Hornet; G6 Platform and Floatable Foldable Bridging Systems (FFB).
2. Secondly, acquiring LSSA into a state owned company such as Denel was logical for purposes of securing the design and manufacturing capability
3. In addition, LSSA has a proven track record for financial self-sustainability through its renowned diversified market portfolio incorporating key strategic export markets which the Denel Group can leverage on.

Capabilities

1. The world class level 4 capability of LSSA, together with the world class level 5 systems integration capability of Denel, will open new markets for the design and production of multi-purpose armoured vehicles.

(2)

* The immediate impact is the increase in total assets with the acquired asset of R855 million with a contra increase in Liabilities by the loan funding that asset of R855 million. There is therefore no impact on the net asset value, nor cash reserves of the company. The acquisition of LSSA is supported by a robust business case, which is expected to increase the net asset value of Denel by approximately R1 billion after payments of the loans and interest in the next 3 years.
* Since the acquisition by Denel, LSSA has signed contracts to the value of about R1.5bn which are now in execution phase. Within a period of less than 6 months since the acquisition, LSSA‘s prospects have substantially increased from the business case Denel used to value the business. Therefore, Denel is convinced that the acquisition is complementary to its current business and makes good business sense.

(3) No cash exhaustion as a result of the acquisition has occurred. Denel’s cash balance as at the end of September 2015 is R1.4 billion (including the ring-fenced cash).

(4)

* All employees have always been and will continue to be paid on time.
* Denel’s order book has grown to levels that result in sales coverage of not less than 7 years. The order book level implies an average growth (year on year) of no less than 12% and as a normal course of business, organisations in this growth cycle will occasionally experience some normal day to day cash challenges. Denel continues to pay its suppliers on a daily basis. The SOC has entered into deferment agreements with a core of about 10% of its suppliers.

(5) As 30 September 2015, Denel owed contractors and/or suppliers an amount of R390 million. To date, Denel has paid an amount of R205 million. There are deferment agreements with the suppliers who have not yet been paid.