

TRANSCRIPT OF INTERVIEW HELD AT THE SERIOUS FRAUD OFFICE ON
FRIDAY, 16 NOVEMBER 2007

CASE REFERENCE: RLI02

TAPE 1 OF A BATCH OF 3

PERSON BEING INTERVIEWED: MR JOHN MACBEATH

PERSONS PRESENT:

LYDIA JONSON	-	COUNSEL
BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
PATRICIA REIDY	-	SERIOUS FRAUD OFFICE

B SMITHWHITE: This interview is being tape-recorded. The time by my watch is 10.14 on Friday, 16 November 2007. We are in interview room three at the Serious Fraud Office. I am Brenda Smithwhite, investigator and assisting in investigating the affairs of BAE Systems Plc, Red Diamond Trading Ltd and others. I am interviewing John MacBeath, who is accompanied by his solicitor, Mr Raymond. I am going to ask them to identify themselves by giving us their full names, addresses and dates of birth to assist in voice identification. Mr MacBeath?

J MACBEATH: John Theodore MacBeath. My address is 344A Nine Mile Ride, Wokingham, Berkshire. My date of birth is the 11th of August 1956.

B SMITHWHITE: Thank you.

A RAYMOND: Anthony Raymond, a solicitor from Tuckers,
39 Warren Street, London, W1T.

B SMITHWHITE: Thanks. Also present are my colleagues.

L JONSON: Lydia Jonson, counsel, 18 Red Lion Court,
instructed by the Serious Fraud Office.

P REIDY: Patricia Reidy, assistant investigator.

B SMITHWHITE: Can you please confirm, Mr MacBeath, that you have
received a copy of a Section 2 notice dated
12 October 2007 in respect of BAE Systems Plc, Red
Diamond Trading Ltd and others?

J MACBEATH: I can confirm that.

B SMITHWHITE: Thank you. Did you understand that notice?

J MACBEATH: Yes.

B SMITHWHITE: Mr MacBeath, during this interview you will be
asked to provide information to assist in this
investigation into suspected serious complex
fraud. You have been required to answer questions
or furnish information under Section 2 of the
Criminal Justice Act 1987. You may be prosecuted
if, without reasonable excuse, you fail to comply
with this requirement or if you knowingly or
recklessly make a statement which is false or
misleading in a material particular. Any
statement you make under this requirement may only
be used in evidence against you in a prosecution

for failing to answer questions or for giving false or misleading information. If you are prosecuted in respect of another offence, then any statement you make in response to this requirement will not be used against you by the prosecution unless you yourself introduce it into the proceedings. There is a guidance sheet relating to this interview. If I can just hand that over and if you could take a few moments to read it.
(Handed)

(Pause)

J MACBEATH: That's understood. Thank you.

B SMITHWHITE: Thank you. OK, if there's no questions, we'll start the interview.

L JONSON: OK. Mr MacBeath, we, as I'm sure you're aware, are investigating allegations that corrupt payments were made to South African public officials by the use of the agent system to enable BAE to secure the Hawk Gripen-contract which formed one part of the South African strategic defence procurement package back in 1999. What we'd like to question you about is really, firstly, your knowledge of how the contract was won and your involvement in the campaign, but particularly in relation to offset; secondly, your firsthand knowledge of the involvement of other BAE personnel, whether based in South Africa or based in the UK at the time; thirdly, your knowledge and involvement in the appointment of

agents, also known as consultants or advisors, and any subsequent renewal or amendments to any of their contracts; and finally, your firsthand involvement - sorry, your firsthand knowledge of the involvement of others, and by that I mean the use of advisors in that campaign.

Now, we will try and be as specific as we can in relation to each question, but the idea is to obtain from you, in as full a detail as possible, your knowledge of what occurred during that campaign. I've spoken to your solicitor outside today and given even more detail as to precisely the type of questions we will be seeking answers from you, but primarily our interest is in the use of the advisor system, so you should have that in the back of your mind, of course, when -

J MACBEATH: OK.

L JOHSON: - when you're answering questions. Right.

B SMITHWHITE: OK, thank you. First of all, Mr. MacBeath, can we start off with a run through of your CV briefly, please?

J MACBEATH: Sure. Where would you like me to start?

B SMITHWHITE: Briefly from when you left school or university.

J MACBEATH: Okay. I'm a graduate of Aberdeen University, with a degree in accounting and economics. I subsequently trained and qualified as a chartered accountant with a company that is now Ernst &

Young, at that time was Arthur, Young, McClelland Moores & Co - we're delving into history now.

Upon qualification I left the accounting profession and I joined BP. That must have been in 1979 or 1980. I worked for BP in Aberdeen for a short time, but over a number of years when I worked with them - and I worked with them up until 1993, I believe - I carried out various finance, but largely commercial, functions in a number of different locations, including Aberdeen, London, I was expatriated and worked in Muscat in Oman, in Stavanger in Norway and in Houston in Texas.

In 1993 I left BP and joined Statoil, the Norwegian state oil company, as commercial vice president, where my responsibilities were in establishing and setting up Statoil's international division. I did that and was then seconded by Statoil into a grouping called the Caspian Sea Consortium, as the general manager of that organization. That was, as the name suggests, a consortium organization with seven shareholder companies, namely Statoil, BP, Shell, Agip, Mobil, British Gas and Kazakh's state oil company - that's seven.

My responsibilities in that position from 1993 to the end of '97 involved the management of the shooting of a seismic survey over the Kazakh sector of the Caspian Sea and, at the same time, in negotiating a production-sharing contract with the government of the Republic of Kazakhstan on

behalf of my seven of the six international shareholder companies. That job ran me through until November 1997, when we secured the signature of the production-sharing contract in a signing ceremony that was conducted in Washington, with Al Gore and Bill Clinton present because of the Mobil shareholding interest.

I left the position of general manager of the Caspian Sea Consortium at the end of 1997. I had, at that time, been offered the opportunity to continue in the role - the next phase of the activity being the drilling of an exploration well over the acreage that we'd signed up through the production-sharing contract - but that position would have been located in Kazakhstan, which, as you can imagine, held little or no attraction for me.

My employers at the time, Statoil, were keen that I work in their head office in Oslo as the head of their mergers and acquisition department. Again, for family reasons - with the age that my daughters were at the time - that was not a convenient position. So I was actually looking for a job when I was, fortuitously I think, headhunted by what was then British Aerospace to come in and join their international marketing department, running their worldwide offset activities.

The remit that British Aerospace had given to the headhunters was that they wanted somebody with

international experience, somebody with a good financial and commercial background, and a track record of delivering complex transactions in emerging markets. I ticked all the boxes, so I eventually joined British Aerospace on the 1st of January - 3rd of January, I think, 1998.

That is the CV to the point I joined the company. Would you like me to -

L JONSON: Yes please.

J MACBEATH - expand a little further on what I've done since then?

L JONSON: Yes, could you - sorry, could you just give us your, the actual title, your job title you are now?

J MACBEATH: My job title today is managing director of industrial and business development. I have a job with broad-ranging responsibility. I continue to manage the company's worldwide offset activities but, in addition, I have marketing responsibility - and I've had this for the last three years or so - for what we call the non-priority markets. It's basically every country in the world where we don't think we can do a single deal with a single value of about £100 million. So it's small, the smaller countries, the smaller orders I have marketing responsibility for. We don't go chasing opportunities in the main; the countries come to us. We have to focus our efforts. We have scarce

resources in terms of manpower and so on. So it, it sounds like a very broad and a very large remit but it accounts for about 35% of my working week, the rest of it I spend managing the offset activities.

B SMITHWHITE: What was your job title when you started in '98?

J MACBEATH: Vice president of corporate trading, I believe.

B SMITHWHITE: And have you essentially held or worked in the same position since '98?

J MACBEATH: The position has changed quite radically, in that in '98, when I joined the company, my position reported to the director of marketing operations, who in turn reported to the group marketing director. I now report directly to the group marketing director. My responsibilities have increased quite significantly. My experience has clearly increased significantly since then and I have a track record of being involved in successful transactions, so I guess I've been rewarded for that.

L JONSON: Who was the director of marketing operations when you started?

J MACBEATH: Neils Petersen effectively hired me. He worked with the headhunters and took me into the company.

L JONSON: And the group marketing director who he reported to at the time?

J MACBEATH: At that time was Mike Turner, who is currently the chief executive of BA.

L JONSON: And now you report to a group marketing director, who is?

J MACBEATH: Mike Rouse. Just so I give you the full picture -

B SMITHWHITE: Yes, please.

J MACBEATH: I have also had responsibility for the management of BAE's shareholding in an aircraft leasing company that was established in Abu Dhabi in 1997. I sat on the board of that company. I went on the board about three and a half years ago. I was quite extensively involved in the management of that, and over the past year and a half or so I've been extensively involved in the disposal of that shareholding. So that part of my job has now stopped but that gives you a picture of the breadth of commercial activity that I have been involved in.

B SMITHWHITE: Thank you. Going back to '98 when you first started, which particular offset contracts were you involved with?

J MACBEATH: When I joined the company, as I say, at the beginning of January 1998, the company was just about to up the level of activity in the South African campaign. So I believe, just before the end of January 1998, I made my first visit to South Africa as part of that campaign.

My role in the campaign was to support the marketing managing director who was responsible for delivery of overall campaign success, and that at that time was Allan MacDonald. I was still feeling my way into the company. I'd come from a senior position in another industry, so I found myself - I didn't know the company, I didn't really know the industry, and, worst of all whenever you move jobs, you don't really know the individuals involved, so without the network to support you, it's always quite difficult to get things done. But it's fair to say that during 1998 South Africa took up the bulk of my time and my effort and a good deal of time and effort of my team at the time.

From memory, I think we were down selected by the South African Government in November 1998 to provide them with 24 Hawk trainer aircraft and 28 Gripen fighters. We then had another tortuous year in finalising the contract negotiations with them, both in terms of the main supply agreement but also the separate offset agreements that were negotiated at that time. So for two years it took a good chunk of my working life.

Now post contract, we've had an offset organization established in Johannesburg responsible for the obligations that we underwrote as part of the contract negotiations. That organization, I should clarify for you, does not report to me; it reports into the chief executive

of South Africa, which at the very beginning was Nick Franks and is now Mike O'Callaghan.

What I provide that organization in Johannesburg with is functional support. I attend reviews periodically; I liai`se with the South African Government periodically because the people are still in position who I dealt with long ago. I provide them with, effectively, crisis management and resource support where they need it but the line responsibility is vested with the chief executive for South Africa.

B SMITHWHITE: OK. In 1998 and 1999 were you based in South Africa?

J MACBEATH: No, I have always been UK based in my time with British Aerospace as was (BAE now), but it requires extensive travel. I mean, as of today, as a rule of thumb, I would say that I spend 40% of my time overseas. '98 and '99, I think I spent about 50% of my time in South Africa. I tended to do a week there and a week back in Farnborough, recognising that I had worldwide responsibilities, and then I'd go back and spend another week in South Africa, but I had constant presence in South Africa in the shape of my team. There was always one or more of my team present in Jo'burg.

B SMITHWHITE: And who was in your team at the time?

J MACBEATH: Well, at that time the people who worked for me were Rob Pemberton and Keith Pates. They were principally involved with South Africa.

B SMITHWHITE: Were they BAE Systems' employees?

J MACBEATH: They were, yes.

L JONSON: And where did they operate from geographically? Did they have a particular office somewhere?

J MACBEATH: They both originated from Farnborough. Rob Pemberton spent a lot of time in South Africa, as I did, but on a travelling basis. Keith Pates we just moved down there. He was a single guy, he had no ties in the UK, so he was happy to decamp to South Africa for the duration of the campaign, and indeed he stayed in South Africa post contract and joined the team responsible for delivery of the offset obligation.

L JONSON: And was that with - did he work out of the same office as other BAE employees or did the offset division have their own office?

J MACBEATH: Right, during the campaign we all worked out of offices located in Pretoria. Just a little bit of detail, I'm not sure why you're asking the location of the offices but I will answer the question.

L JONSON: It's - I'm sorry - my focus is not necessarily the precise geographical area; it is whether or not you were working with other - with all BAE Systems

employees who were working on every aspect of the campaign were working in the same offices or were you in disparate areas?

J MACBEATH: Okay. During the campaign phase everybody was co-located in Pretoria. The Gripen fighter aircraft, you're probable aware, is manufactured by Saab Aerospace of Sweden. The Gripen was sold to the South Africans on the basis of a 50/50 joint venture between BAE and Saab. Saab, I think, had realized that they could supply the aircraft to the Swedish Government and the Swedish Air Force, but to make the thing pay for itself they needed an international sales possibility. They decided that because British Aerospace had a global footprint, they were the best company to deal with, so we effectively jointly marketed the Gripen with the Swedes. The offset campaign in South Africa - there are - shall I just -

B SMITHWHITE: Yes.

J MACBEATH: Stop me if you think I'm rambling or anything. Offset takes two separate parts, if you like. There is what we call direct offset, and that is offset that's directly related either to the product in question being sold or the aerospace and defence industry generally.

L JONSON: Is that known as Defence Industrial Participation?

J MACBEATH: In South Africa the term used to describe that is DIP, yes, Defence Industrial Participation. We

also have what we call indirect offset, which is effectively unrelated trading activity offered by way of trade compensation to a government acquiring a product, in this case a defence product, and that's referred to as National Industry Participation in South Africa.

Now, offset is a much abused term and a much used-wrongly term around the world, but if we talk in terms of direct and indirect I think it's much, much clearer. Offset is not rocket science, there's no black magic behind it: it is purely and simply trade compensation under a specific name. Trade compensation is not unique to the defence industry; it's conducted in many different industrial sectors where governments buy goods and equipment from foreign buyers.

In the defence industry, offset started off along the lines that a government would buy a defence product and by way of compensation would demand that the seller placed manufacturing contract and subcontract work in the buying country. As our industry has changed over the years - and it has changed significantly with the curtailment of defence expenditure programmes and the consequential reduction in the number of players in the defence market - the opportunity to place work in countries has become much, much reduced. That, coupled with the fact that technology is increasing, there are very, very few able recipients of high-tech manufacturing capability.

So the offset world has started to migrate away from the traditional form of direct offset into more indirect arena, whereby we, as a defence company, or any other selling organization, is required to place economic activity in the buying country that is designed variously to stimulate foreign direct investment, promote exports and domestic sales, and most importantly generally to create and sustain employment. So that's really the trade compensation figure.

What we found in South Africa was that Saab and the Swedish Government were very, very aggressive in their drive towards offering industrial participation to South Africa, and Saab have, as part of their ownership, a very significant holding that is held by a group called The Investor Group. It's an investment vehicle controlled by the Wallenburg family, who are renowned throughout Sweden. They have major investments in pretty much every major Swedish industrial concern, from ABB, Astra, Atlas Copco, Scania and Saab.

So the Saab drive in South Africa - and don't forget they'd supported South Africa very, very closely, the Swedish Government, throughout all the years of apartheid - there was a drive to deliver Swedish industry into South Africa to help its economic development. So Saab played a card that said: if you buy the Gripen fighter aircraft,

we will deliver to you The Investor Group's strength in its entirety.

Now we really believed that because the various companies in The Investor Group have responsibilities to their own shareholders not to Saab shareholders, but that was the play that Saab put on and they actually opened their own office in Johannesburg. I'm finally getting to the point.

L JONSON: No, it's fine.

J MACBEATH: They opened their own office in Johannesburg in an area called Rosebank. This was a Saab representative office. It was also used by the Swedish Trade Council, and because the bulk of the indirect offset offering that was tabled with the South Africans was supposed to emanate from Saab, from Sweden, through Saab and The Investor Group companies, Saab was given the responsibility to manage the offset delivery team in South Africa. They got first roll of the dice to attempt to discharge the obligation.

I may add that offset is not unique to South Africa, it's not unique to the defence industry; more than 100 countries around the world have some form of trade compensation regulations and requirements, including the UK. We have a 100% direct offset requirement in the UK where the UK MOD acquires foreign defence equipment. Shall I continue just with the history?

L JONSON: Yes.

J MACBEATH: Saab initially took responsibility for delivering the NIP, the indirect offset element of the contract which, from memory, was a total obligation of \$7.2 billion, I think split 5 billion in domestic and export sales and 2.2 billion in foreign investment -

L JONSON: Can I just pause you there? Is that in relation to the overall BAE/Saab package -

J MACBEATH: It is.

L JONSON: - because you've got obviously the Hawk element as well?

J MACBEATH: Right.

L JONSON: Did they take responsibility for the Hawk's NIP as well?

J MACBEATH: Can I - I was moving on to -

L JONSON: Oh, OK. Sorry.

J MACBEATH: - explain that, Lydia, if I may. The \$7.2 billion obligation is a combined obligation for Gripen and for Hawk. As we went through the final knockings of the commercial negotiations to agree on the number, we had actually separated out the contract such that there was an indirect offset contract for BAE in relation to Hawk and an indirect offset contract for Saab in relation to the Gripen. The split that we were using in the contract

negotiations was about \$1 billion BAE/Hawk related and 6.2 billion Saab Sweden/Gripen related. At the - almost at the death of the negotiations, those two figures were collapsed into one. And the reason behind that, I think, was that we, in BAE, got cold feet at the idea that Saab were delivering a \$6.2 billion obligation with a 50% liability about to fall on us in the event that they failed because of the joint venture relationship. So we collapsed that into a single contract.

The direct offset, Lydia, the DIP, there are two separate contracts - one for Hawk and one for Gripen - and from memory, the Hawk DIP obligation is about \$650 million, give or take. Now, the direct offset obligations, the DIP obligations, were contractually kept separate because the delivery of them was absolutely aligned to the delivery of the product in question being sold. It was quite right that Saab could maintain responsibility for delivering Gripen direct offset because they made the damn thing anyway; they ought to have been able to transfer elements of production and elements of componentry quite readily.

Likewise for BAE, the Hawk piece was very easily boxed off and readily identifiable to be delivered by BAE through its Hawk business unit and any other aerospace and defence activities that we

had. So that's the reason for the differential treatment.

So they were located in Rosebank under Swedish management initially. That lasted about 18 months, and the Swedish guys who'd been placed in charge of the team by that time had demonstrated a complete and utter inability to do the job that was expected of them, so we changed the team around and the management of the team was given to Bernard Collier, who I had appointed into the offset delivery team about six months post contract as the deputy manager, if you like.

I needed a strong hand in there, first of all to represent BAE's interests properly but also, even at that early stage, I had an idea that we would have to change out the management structure but we had at least to give Saab the opportunity to do what they said they were going to do. It didn't work. Bernard was put in charge.

We have successfully delivered the indirect offset obligation to date. There are performance measurement milestones in April 2004 and April 2007. Both of those milestones were successfully met and have been appropriately certificated and signed off by the South African DTI.

L JONSON:

I've got a couple of questions arising out of that, if that's okay. Whose decision was it - going back to the final decision to collapse the

NIP Hawk and Gripen split into one general component, whose decision was it in the end?

J MACBEATH: OK, at that time it would have been Kevin Smith. He had replaced Allan Macdonald. Macdonald had left the company in the middle of the contract negotiations, and Kevin - who was actually then the group marketing director, he'd taken over from Mike Turner - Kevin effectively led the overall negotiations.

L JONSON: Just dealing with Allan Macdonald's departure, do you know the details at all around why he left? I'm not asking you to speculate, don't worry, it's just if you know anything.

J MACBEATH: All I heard was that Allan had threatened to resign over a number of things that he wasn't very happy about and he got the shock of his life when Kevin Smith accepted his resignation.

L JONSON: Right. Right, OK. Thanks. The other thing was, you said it was after about 18 months that the Saab team - essentially, it was shown that they weren't able to perform their duties as well as expected - can you give me a date for that when Bernard Collier took over, even a year? Was it pre-signing?

J MACBEATH: No.

L JONSON: It was post?

J MACBEATH: It was post-signing. The contract, from memory, became effective in April 2000.

L JONSON: It did, yes.

J MACBEATH: We had a Swede running that team, certainly through 2000 and into 2001. Bernard Collier's precise date for going into South Africa would have been, I guess, late 2000 but he went initially as the second in command.

L JONSON: Right. OK.

B SMITHWHITE: If we can go back to January 1998 when you took over and started your role in BAE, did you have a handover or familiarization visit at the start?

J MACBEATH: Not really. As I explained, I was headhunted and I was brought in to do the offset job differently to the way it had been done before. Offset can be considered as an obligation - a liability, if you like - something that you have to do. The BAE philosophy was that they wanted to use offset as a marketing differentiator: could we offer industrial packages to our customers that would excite them, would make them want to buy our products? So I effectively was brought in to do the job differently to the way that it had been done before.

Now in my own mind - because I'd worked internationally for many years, I'd been involved in many complex trading activities in different areas around the world - I was confident in my

ability to deliver that. But it was more difficult than I thought it was going to be in the context of South Africa simply because I was new in the arena, I was struggling to find my feet with a new job in a completely different environment, not knowing any of the key players even in my own company never mind with the complication of the Saab interface which, in all honesty, has always been difficult for BAE.

So there was no real handover as such. We started with a clean piece of paper; we created an industrial offering for South Africa. They kept demanding more and more and more, and the Swedes kept saying, "Yes, yes. We can do all of that." and I found the whole exercise quite difficult in terms of understanding what it was we were setting ourselves up for but I also had to have one eye on the future as well because it has to be deliverable. It is all about reputation, the offset game. Nobody is interested where you succeed in delivering the offset obligation. But boy, you get bad press when you fail!

B SMITHWHITE: Think about your day-to-day activities in 1998 - you said you would go out there perhaps for a week at a time and then do a week back in Farnborough. What typically would that week consist of?

J MACBEATH: Okay. Very, very straightforward in many respects. I carried out meetings with all of the major financial institutions in South Africa; I liaised extensively with the DTI and with Armscor,

the procurement arm of the Ministry of Defence; and I tried to develop as broad an industrial understanding of South Africa as I possibly could. So I went into all of the major South African industrial entities to try and understand what the economic drivers were, what the macro economic developments were in South Africa, where the pressure points were and where we could make offerings that could make a difference.

For example, there was nothing we could do in terms of gold mining - they're good at gold mining, they've got plenty of gold, plenty of miners - but where we could make an offering was, one of the projects that we initiated after the contract had been signed, was in respect of gold beneficiation. We provided soft loans to a couple of South African entities who make jewellery out of the gold that was mined there. That kind of thing facilitated trade and promoted economic development.

So really we were starting from a very, very low knowledge base and we had to cast the net far and wide. So it was a very intense period of work, a huge learning curve to get up and to understand, because South Africa - if you strut around Johannesburg, areas of Johannesburg are like Western Europe - but South Africa is Africa and it is the economic drivers in the country, once you start to investigate them, you understand that South Africa remains to this date a developing

nation. It's not first world - which parts of Johannesburg would make you believe - once you scratch the surface it is very, very different.

So we had to learn all of that, we had to try and put together a network amongst the financial institutions and amongst the major industrial players and so on, and it was difficult because what we were offering was new. So a lot of South African companies took a long time to be persuaded that they needed to be aligned with us and that we were going to be an engine for economic growth and development. You've got really to have some kind of track record. It's not good enough to stand up and say we'll do this or we'll do that. They like to see it.

B SMITHWHITE: Who were your main contacts at the DTI and Armscor?

J MACBEATH: At Armscor, Johann van Dyke. In the DTI, Paul Jordan; I think Lionel October, latterly; Alistair Reuters; and I did on occasions meet the Minister for Trade who, at that time, was Alec Erwin. We had very good support throughout the campaign from the UK Government. This was a very, very strong level of political support throughout. Tony Blair himself visited South Africa twice. I personally attended meetings on a couple of occasions. Peter Mandelson lobbied on behalf of our company and I know that George Robertson lobbied on our behalf when he was the Minister of Defence. So throughout, this was very, very strong corporate

push, highly significant transaction because of its magnitude, highly significant because of the Gripen element (it was the first time it was going to be sold internationally), and highly significant because of the political support both from the UK and from Sweden that we received throughout.

B SMITHWHITE: Did you have much contact with DESO at the time?

J MACBEATH: Yes, yes.

B SMITHWHITE: How much support did they offer?

J MACBEATH: Well, DESO are very, very supportive of all of our campaigns. I mean, I don't recall the specifics but I do know that - Charles Masefield, I think, was the head of DESO at the time - Charles lobbied on our behalf very, very effectively. I don't think there's been a major campaign in the 10 years that I've been with the company where DESO haven't been highly visible and highly supportive.

L JONSON: Can I just ask one question? It's my ignorance of the details of offset, I'm sorry. Do you have to identify all the projects that you intend to invest in before the contract is signed, or is it just some or none at all?

J MACBEATH: It varies from regime from regime.

L JONSON: Well, just in relation to South Africa.

J MACBEATH: In relation to South Africa, we started with a situation where I believe the legislative

requirement was for about 100% offset. We knew that offset would be a discriminator and a differentiator in the competition - and we were in competition because, whilst there were other aircraft on offer, we knew within the broader strategic defence procurement there was competition for dollars. South Africans couldn't afford everything, so we had to differentiate ourselves from the direct aircraft competitors but also the rest of the offerings, be it the ships, the helicopters or the subs that were on offer at the time. So the South Africans asked initially for offers together with designated projects.

We got into a situation where we kept getting pulled up in the bids. We were told once they'd opened the envelopes with the product offerings, the price offerings and the industrial offerings, that the benchmark was the German Corvette issue and they had offered a stainless steel mill. So from our, we think about 100, we bid 150%. From 150% of contract value, from memory, we got dragged up to 7.2 billion in indirect offset against a total contract value, from memory, of about 2.1, is it? 1.6 on Gripen and 600 on Hawk? So we got dragged - so in that context, Lydia, it would have been impossible for us to specify the projects on day one.

Also, the nature of the requirement from the South African Government, as it increased in its magnitude, became more specific in terms of what

they were looking for. So on the day the contract was signed, it would have been impossible for us to specify with any great certainty the precise projects that we were going to deliver, but we did tell them that we were going to deliver Sweden PLC with the various arms of The Investor Group. We had a handful of programmes that we could point to from the UK's side, but we made it clear to them that we would discuss, negotiate and agree project by project as we went forward.

In any business scenario it is almost impossible on day one of a 10-year programme to specify an individual project you are going to deliver, because nobody has 20/20 vision out to that extent in the future. So what we tend to do in - forgive me if you're not really interested but just to try and set some context - what we do try and tend to do in any major campaign is, we always make sure we have an excess offering. Basically, if we sign up to deliver a billion, I want my guys to have a hopper of opportunities that runs to at least double that, because I know that some of the projects will deliver, some will not and some will fail. So what we have to do is recognize you're not going to roll the six every time you roll the dice. We have an excess of opportunity and an excess offering, but you don't divulge all of that to the customer because they'll just ask for more. That is just the poker playing, isn't it?

L JONSON: Yeah, yeah, I understand. I am just looking at the time. I think we are at 44, aren't we?

B SMITHWHITE: Yes. It seems a good opportunity to conclude this tape. The time by my watch is 10.58 and it's the end of tape 1.

(End of tape 1)

TRANSCRIPT OF INTERVIEW HELD AT THE SERIOUS FRAUD OFFICE ON
FRIDAY, 16 NOVEMBER 2007

CASE REFERENCE: RLI02

TAPE 2 OF A BATCH OF 3

PERSON BEING INTERVIEWED: MR JOHN MACBEATH

PERSONS PRESENT:

LYDIA JONSON	-	COUNSEL
BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
PATRICIA REIDY	-	SERIOUS FRAUD OFFICE

B SMITHWHITE: This is tape 2 of the Section 2 interview with Mr MacBeath. The time by my watch is 11.11. Please can you confirm, Mr MacBeath, that we have not discussed any matters relating to this case during the interval since the end of the previous tape, and that the same people are present?

J MACBEATH: I can confirm that.

B SMITHWHITE: Thank you. At the end of the previous tape we were discussing offset. I have just got a couple of questions relating to 1998. You took us through a typical week where you would meet DTI people and Armscor people. Did you ever meet anybody at the Ministry of Defence at all?

J MACBEATH: I didn't.

B SMITHWHITE: In '98 or '99?

J MACBEATH: I didn't.

B SMITHWHITE: You didn't.

J MACBEATH: My dealings - I occasionally met military people, perhaps at receptions and so on, but no Ministry of Defence officials other than the Armscor people (who I mentioned earlier), and that was principally Johann Van Dyke and, I believe, his boss at the time was Chippy Shaik. I met Chippy on several occasions and quite extensively during the contract negotiations.

B SMITHWHITE: And if I could just ask another question about the offset office and the other BAE offices there. Was there much interaction say between your team and Allan Macdonald or Kevin Smith's team?

J MACBEATH: Well, during the negotiations we were all co-located in Pretoria so there was interaction between the teams: they all sat together. A lot of people were spending very extensive periods of time away from home so they tended to work together and socialise together, so there was that.

There was started to be a break of that routine when Saab opened the office in Rosebank. And Bernard Collier, once he assumed responsibility for management of the offset delivery team, he

actually took a separate set of offices again, moved them from Rosebank - it was a pretty rundown area of town - up to a new office complex at a place called Fourways in Johannesburg, and that office complex was in use, I think, exclusively by the offset people, separate from the Pretoria office, where the marketing and some of the aircraft related people were, although I believe they've now all consolidated into Fourways again, but that's happened during the course of this year.

B SMITHWHITE: OK. Thank you.

L JONSON: Can I just ask you - starting from 1 January 1998, if we can go from that date to April 2000 to effectivity, could you just list the people that were in South - the BAE people that were in South Africa for that period?

J MACBEATH: Do you mean permanently based there or the visitors?

L JONSON: No, no, permanently there.

J MACBEATH: Permanently based there. Well, from memory, Niall Irving was there, Stuart McIntyre, David Williams. Macdonald visited, I visited. Keith Pates, Andrew Humphreys, Pat Gosden.

L JONSON: They are all visitors, are they?

J MACBEATH: All visitors, yes. Rob Pemberton.

L JONSON: So was there at that - between, let's say between 1998 and April 2000, were there any people - I think you said, did you say Keith Pates was resident at one point?

J MACBEATH: Keith Pates started to travel down there, but he was a single guy so I left him there.

L JONSON: When was that, do you remember?

J MACBEATH: It would have been probably the third quarter of 98 onwards.

L JONSON: Right. So was he the only full-time - when I say full-time - resident offset member of BAE?

J MACBEATH: Yes.

L JONSON: Right, OK. And during that period, was there anyone else who would visit? You said Macdonald, Humphreys, Pat Gosden. I've got "RP" down and I've forgotten his name.

J MACBEATH: Rob Pemberton.

L JONSON: Rob Pemberton, thank you. What about after Macdonald left?

J MACBEATH: After Macdonald left, Kevin Smith effectively ran the show. He just stepped in to the role that Macdonald had been playing. I mean, by the time Allan left, we were actually into the guts of the commercial negotiations, and that probably is Kevin's strongest suit so it was logical that he would step in and complete the transaction.

L JONSON: Right. Was there anyone else involved at all or any other visitors to the office? I don't just mean people who just really had no actual involvement in the campaign but turned up for political purposes but actually people who knew about the campaign.

J MACBEATH: I think that's pretty much it, from memory. If anybody else, anything else comes to mind, I'll let you now.

L JONSON: Thanks. That's great.

B SMITHWHITE: In terms of the marketing guys out there in the other team, did your team discuss offset much with that team?

J MACBEATH: Discuss it much in the sense that they always knew we were in South Africa. We would tell them broadly what we were doing, but probably not much in detail because the skill sets required to do the different jobs are completely different. My offset people in the main are hardnosed, hardwired commercial people. The marketing people in South Africa, such as Niall Irving, wouldn't know one end of a commercial transaction from the other. Niall is an ex-military man. He markets to military people: that's his strength.

Stuart McIntyre, to be fair, I did use Stuart occasionally to go to meetings with my people and so on, if I felt they needed accompanying and so

on, and Stuart was not bad but I wouldn't have let him out on his own to do offset work.

So that sets the context of the level of discussion that we would've had with him, but we always, you know, we were part of a single team. I would, for example, tell Allan Macdonald what the overall industrial offering was looking like, I would tell him the issues that we were wrestling with, because my role was to provide support to Allan. I mean, he was the frontline marketer. His responsibility was to deliver the transaction, and a discriminator on our behalf, we thought, was the quality of the industrial offering. So it was quite right that he needed to know what was in there. But again, to be fair to Allan, as long as I gave him headline numbers, that was all he was interested in. He wasn't interested in "who are you talking to?" or "what are they saying?" or anything like that.

L JONSON: I mean, sorry, when Kevin Smith took over - and you say he was more of a hardline, hardnosed, he was more of a commercial man - did you report to him more than you did to Allan Macdonald, bearing in mind he, him coming in as a more senior marketing man?

J MACBEATH: I think I probably did have more interaction with Kevin, but I'm not sure that that was anything other than an accident of timing in that when Kevin came in, we were into the detailed negotiations so - I mean, he had the overall

contractual negotiation responsibility, so there was the main supply agreement, the offset agreements and so on. So I did, of course, tell him where we'd got to in the various negotiation sessions, I flagged up to him where I thought we still had some room and so on, because I had to deliver an offset agreement that we were comfortable with, he had to deliver the overall deal in a satisfactory manner for the company, and it may have been that he could have traded something from my piece of the action to accommodate something within the overall deal. His mandate was to deliver a bottom line result, not to deliver an offset agreement in isolation. So of course I interacted with him; I spoke to him, I told him that we were going round in circles.

It actually - once the South Africans got to it, and so on, the negotiations happened fairly quickly for the, you know, given the size and complexity of what we were dealing with, it wasn't too bad. Just a awful lot of mucking around over several months, with everybody kind of, you know, dancing round the real issues. But once we got to it, it was quick.

L JONSON: Right. Thanks.

B SMITHWHITE: When you started the job, you mentioned there wasn't really a handover and you went out there

and met people. Who got you into those meetings or who introduced you to the key players?

J MACBEATH: The first time I ever went to South Africa, I went with Allan Macdonald and, from memory, he put up his campaign master plan - he said what he wanted in terms of an industrial offering that covered direct and indirect. He wanted us to understand and develop relationships with the DTI and with Armscor, and that was really it. You then had to pick up the 'phone and go and make your own introductions and so on. But again, the business card will get you in. If the, you know, the DTI knew that we were involved in the defence competition. I could introduce myself; I had the business card; you make a 'phone call. So, I mean, I don't recall being taken along and introduced to people *per se*. It may have happened, but not from memory.

L JONSON: You mentioned his campaign master plan that he put up. Was that a document or a -

J MACBEATH: No. He stood in a room and he wrote on a flipchart.

L JONSON: Oh, right. OK. Do you know if he did have any kind of a, if there was a document, any written document that set out the strategy?

J MACBEATH: I have never seen such a document.

L JONSON: Right. OK.

J MACBEATH: And, from memory, I do recall that I did think the whole campaign process was fairly chaotic in the initial period. That may have been in part due to my lack of understanding. As I say, I was very, very conscious that I was feeling my way. Allan Macdonald is - I think you would describe him as a mercurial character. I mean, he's either full on or full off, and his campaign master plan probably changed every week as he had another good idea. That was the kind of situation and environment we were in. Highly energetic, he got the down select and so on, but I don't recall seeing a formal campaign capture document. If one was in existence, it will undoubtedly have been prepared by Stuart McIntyre.

B SMITHWHITE: You mentioned that under Allan Macdonald it was quite chaotic. Presumably that changed and Kevin Smith brought a different perspective?

J MACBEATH: Well, Kevin had to bring structure to it because by that time we were into the detailed contract negotiations. I mean the - a marketing campaign evolves through many different stages and when I first went to South Africa the South African Government hadn't actually articulated what their requirements were, so part of Allan Macdonald's job was to try and influence their thinking of what their requirements might be. He had to extol the virtues of our products, both in terms of their use in many other countries around the world, their price competitiveness, their through

life cost attractions and so on. So Allan - chaotic might not be an altogether fair word. Flexibility is the key, because the requirements were still evolving. We had an opportunity to shape them by having good sales presentations; by having a good marketing presence; by giving the right messages that we understood what their requirements would be, and suggesting where they might better suit our purposes. That's standard in any industry. So I think a changing environment would be better rather than chaotic.

B SMITHWHITE: During this first visit to South Africa with Allan Macdonald, did he mention advisors or agents at all at that point?

J MACBEATH: I don't recall specifically if, on the first visit, that was mentioned to me; however, I did very quickly meet, or I was introduced to, Richard Charter, who I believe was the principal advisor to Allan on the transaction.

B SMITHWHITE: Was there anybody else?

J MACBEATH: Whether that was the first visit or not, I don't know. Later in the course of the campaign, I was introduced to Fana Hlongwane.

B SMITHWHITE: Do you remember when that would have been?

J MACBEATH: It would have been later in '98, certainly not near the beginning.

L JONSON: Why do you say that? Definitely - is that your independent recollection that it definitely wasn't in the earlier part of the year?

J MACBEATH: I do remember that I met Charter on several occasions before I met Fana.

L JONSON: Okay.

J MACBEATH: And again, both of them were introduced to me quite overtly as being our advisors. Richard Charter, I understand, had been a longstanding advisor to BAE Systems over many years.

L JONSON: What did you understand Richard Charter's expertise to be?

J MACBEATH: Charter's expertise - as I understand it and as I recollect it - Richard ran a company called Osprey Aerospace. He had extensive historical dealings in South Africa, both in the military arena but also in civil aviation. I think he'd even been involved in running an airline at one point, which may have been his entrée to dealing with the old British Aerospace. So he had a direct industrial expertise, but I think because he'd always been in and around the workings of the South African aviation sector, that was the expertise he brought to the party.

L JONSON: Did he assist you in relation - or did he assist the offset team in relation to -

J MACBEATH: Not really, not really. I mean, he would have asked us - I mean, Richard was always very keen that we were aggressive with the offset offering. He always said: this will make a big difference to the final decision-making; this cannot be sold as a defence acquisition deal which just involves South African tax dollars going offshore; there has to be benefits for South Africa, and it will help the transformation of the South African economy if we can point to jobs, we can point to projects and so on. So that kind of general instruction was dispensed, but in terms of hands-on and sleeves being rolled up and this is what you should do, no. Not, not from him and not from Fana.

Fana was different in the sense that he principally dealt with Macdonald. I didn't really have a whole load of detailed discussions with Fana in the early days, and indeed I think since the contract was signed - Charter is now unfortunately dead, but I think the contract - we said signature end of '99, effectivity in 2000 - I've probably only spoken with Fana Hlongwane two or three times since the contract became effective.

But AM left in January 1999

L JONSON: How many times do you think you saw him before it became effective? I suppose what I'm - I see what you say about Richard Charter and his involvement. I suppose what I'm asking really is: what was, as

far as you could see it, the involvement or the assistance that Fana Hlongwane gave?

J MACBEATH: I didn't see the assistance he gave. As I've said, he was Allan Macdonald's advisor. I met him in meetings and I listened to what he was saying and so on, but -

But AM left in January 1999

L JONSON: But that was when Allan Macdonald was there?

J MACBEATH: It was Macdonald who introduced me to Fana initially, yes.

L JONSON: So what happened after MacDonald left?

J MACBEATH: After Macdonald left, then Kevin was there. We were actually into the detailed negotiation phase and I didn't see much of any of either Charter or Fana. The last time I spoke with Fana Hlongwane was about a year ago today when he attended a lunch to celebrate Bernard Collier's investiture with either the MBE or the OBE. I was there, and at that point he did remark that he hadn't seen me for some time.

B SMITHWHITE: Were you introduced to any other advisors?

J MACBEATH: Not - if you throw names out to me, I might be able to help you, but from personal recollection, I met Richard Charter, I met Fana and that was it.

L JONSON: Yeah, let's throw some names out at you. Why not? We might as well throw them out and see - we might as well throw them out and see, and see what Mr MacBeath thinks.

B SMITHWHITE: OK, I'll go through the names. Basil Hersov?

J MACBEATH: Never met him.

B SMITHWHITE: Have you heard of the name?

J MACBEATH: I read the name in a press article.

B SMITHWHITE: But no connection to your time in South Africa?

J MACBEATH: None whatsoever.

B SMITHWHITE: OK. Richard Friedman?

J MACBEATH: Never heard of him.

B SMITHWHITE: Alex Roberts?

J MACBEATH: No. I know who Alex Roberts is but I've never met him.

B SMITHWHITE: Never met him.

L JONSON: Did you know he was an advisor?

J MACBEATH: No.

L JONSON: OK.

J MACBEATH: Can I -

L JONSON: We may come back to this, don't worry. If you want to add something, please do.

J MACBEATH: Yes, I do. Just for the sake of clarity, the appointment and the interaction with the advisors was the responsibility of the regional manager and director.

L JONSON: Oh yes.

J MACBEATH: In this case, Allan Macdonald. So there is actually no reason why I would know who all of the advisors to the South African transaction would be.

L JONSON: No. No, no. I understand that. I'm just - obviously I have about five questions following on, but I'm going to come back to those later.

J MACBEATH: OK.

B SMITHWHITE: OK. I'll just continue with the names. John Bredenkamp?

J MACBEATH: I know the name but I didn't know that John Bredenkamp was involved in South Africa.

B SMITHWHITE: OK. Julian Pelissier?

J MACBEATH: Jules Pelissier: I believe I shook hands with him once in a bar. But again, I wasn't aware of his advisor relationship, if indeed he had one - well, he must have or you wouldn't be reading his name out.

B SMITHWHITE: Trevor Wilmans?

J MACBEATH: Never heard of him.

B SMITHWHITE: Rick Passaportis?

J MACBEATH: Never heard of him.

B SMITHWHITE: Walter Hailwax?

J MACBEATH: Never heard of him.

B SMITHWHITE: Alan Curtis?

J MACBEATH: Alan Curtis used to run an outfit called The Airborne Trust.

B SMITHWHITE: Which is in South Africa?

J MACBEATH: I don't know where it's incorporated. I suspect it's in South Africa, but where I recall the name - but I don't recall having met him - is that The Airborne Trust were very keen that we, as BAE, develop an offset project involving the MK Vets Association, an ex-service association in South Africa, and in the early days we did look at establishing a small industrial park to do some skilled light engineering work, and specifically we were told to look at an area of Johannesburg called Orange Farm, but commercially it was a nightmare: it was never going to work and I don't think it ever came to fruition. So that's where I know the name of Alan Curtis from.

B SMITHWHITE: Thank you. The next one is Nabil Hajazi.

J MACBEATH: Nabil Hajazi is a name that I know. I've known Nabil for a couple of years but my dealings with him have been in the context of the Middle East. I have had no dealings with Nabil in the context of South Africa and indeed was not aware, until the 28th information notice was issued and I saw the name on there and I pieced together that it might have been South Africa, I was not aware that

he'd had any involvement in South Africa and certainly I never met him during the campaign. I met him a couple of years ago and I've had some dealings with him in the Middle East.

B SMITHWHITE: And one last advisor name is a company called **Commercial International Corporation.**

J MACBEATH: Never heard of them.

L JONSON: OK. Can I just take you back to Alex Roberts very briefly? You said you didn't know he was an advisor. Did you say you've met him?

J MACBEATH: No, I've never met him.

L JONSON: You've never met him?

J MACBEATH: I know the name. I believe he used to be the chief executive of Shorts Aerospace in Belfast -

L JONSON: OK.

J MACBEATH: - and one of my colleagues in BAE used to work for him, but that's the only connection which I know the name.

L JONSON: OK. Do you - **if he had done any work in relation to offset or if he had provided any advice or assistance, would that have been reported to you?**

J MACBEATH: I would hope so.

L JONSON: I just, just - obviously I'm just double-checking. Right. OK. Because I'm just trying to envisage a system: is it possible that an advisor - not

necessarily Roberts, any of them - might have provided offset advice but been provided to somebody else?

J MACBEATH: Allan Macdonald may have asked somebody as a sense check to what I was telling him. That's entirely feasible, I suspect, but to my knowledge nothing.

L JONSON: Right. And would you have expected any advice that was given by anybody to have been filtered back to you if it didn't come directly to you?

J MACBEATH: I would have assumed so, yes.

L JONSON: OK. Thank you.

B SMITHWHITE: If we can go back to Fana Hlongwane. When you first met him in 1998 -

J MACBEATH: It would have been the late '80s, '98 - '88.

B SMITHWHITE: What did you understand his role to be at that time?

J MACBEATH: He was introduced to me as a lawyer who had done some government work in the past. He was described to me as having strong ANC connections: the ruling party, effectively.

B SMITHWHITE: Was it ever explained what type of government work he did?

J MACBEATH: I don't believe so.

L JONSON: Did you know that he was in fact a public official, a member of the government?

J MACBEATH: I was not aware of that fact.

B SMITHWHITE: Sorry, if I could just go back. Were you aware that Fana Hlongwane was an advisor to the contract?

J MACBEATH: Yes.

B SMITHWHITE: But not at the time?

J MACBEATH: No. From my recollection, Allan Macdonald introduced me to Fana Hlongwane and it was quite open that Fana was an advisor to Allan.

B SMITHWHITE: Right. OK.

J MACBEATH: Now, again I have to stress to you that the responsibility for managing the advisors was vested in the first instance with Allan Macdonald. He would have determined: (a) what type of advice he sought from them; (b) how he reacted to that advice; and (c) most fundamentally, he remunerated the individuals for the advice that he received.

B SMITHWHITE: You said that you attended meetings where Mr Hlongwane would be present and it might be a presentation-type meeting. Were they the only meetings where you met him?

J MACBEATH: Yes. Most times that I met Fana, in all honesty, was in Macdonald's hotel suite in Jo'burg, where we'd end up being summoned and we'd sit in a general catch-up meeting or we'd be asked where we thought we were and so on. That was generally the setting where I met Fana.

B SMITHWHITE: And did Mr Hlongwane have much input into these meetings, from your recollection?

J MACBEATH: Fana always had plenty to say; whether it was input that was acted on or not, I wouldn't care to comment. I hesitate to say this: he's a typical lawyer. (Laughter) He was often referred to as "the advocate" by his staff, and things like that, and he is exceptionally articulate and can be a very charming man, so he always had lots to say. He did have a view on how the transaction was progressing. He always used to stress the importance of offset and so on. But certainly at the campaign phase he never really dived into the detail.

I really must stress again that I was still finding my way around and, in many respects, my best course of action was to learn myself, and that's what we did, and arguably we did it successfully because, as I say, the handover to the delivery team was smoothly managed, albeit with a small hiccup when we had to dislodge a Swede. Bernard has managed the team, and managed the team up until about a year ago successfully, and the performance milestones have been met, so we're actually doing what we said we would do.

L JONSON: Just let - Fana Hlongwane, I think now is the - dealing with what is happening now on the ground in South Africa, presumably BAE's presence there is significantly to do with fulfilling its offset obligations?

J MACBEATH: BAE's presence in South Africa today has a number of different aspects to it. Principally, it's delivering the aircraft to the South African Air Force. The delivery of the offset programme is a good chunk of the outstanding activity, and in parallel we also have a number of other marketing activities going on down there to position ourselves for the next buys. We also have, in the intervening years, acquired an interest in a South African vehicle military manufacturing company called OMC, so that also is managed in South Africa just now.

L JONSON: Fana Hlongwane is, I think, currently the only working advisor for BAE in relation to South Africa.

J MACBEATH: And he is, well, he is an overt advisor to BAE in South Africa. After - forgive me if I have the chronology slightly out of whack here.

L JONSON: No, no. Please.

J MACBEATH: After that contract was signed and became effective, Fana set himself up in business. I don't know what the name of the company is but he does openly describe himself as a consultant to BAE, and I know this because Bernard Collier did have dealings with Fana after the contract had been delivered - Fana made a number of industrial introductions for him and so on. So I am aware that Fana had worked very closely with Bernard

Collier and I am aware that he overtly expressed himself to be a consultant to BAE Systems.

L JONSON: Right.

J MACBEATH: So if he's doing all of this openly, I can't see that there would necessarily be any question of any wrongdoing.

L JONSON: My next question was going to be - but I think you may have just answered it - who would Mr Hlongwane report to or deal with now in relation to BAE's activities down in South Africa? Who would be able to - who would we be able to interview to say what type of work he has been doing since the contract became effective?

J MACBEATH: I'll answer that for you very simply. The name you need is **Chris Geoghehan**, who is, well who was the chief operating officer. He will be leaving BAE at the end of this year. He has had extensive interaction with Fana, I believe, over the past 12 to 18 months, largely on the back of BAE Systems trying to extend its vehicles business in South Africa through a linkup with Denel.

L JONSON: Right. What about the period between contract effectivity and say, for example, 2004, the first offset milestone - who would be able to say how much work Hlongwane did in that period?

J MACBEATH: I don't recall exactly when **Stuart McIntyre** left South Africa, but Stuart would have had an

interface with him and Bernard Collier would have had an interface with him.

L JONSON: Is Bernard Collier still in South Africa?

J MACBEATH: I believe Bernard is living in South Africa but he has left the company.

L JONSON: Oh he has. Right. OK. Were you aware of Fana Hlongwane having any relationship with Alex Roberts?

J MACBEATH: No.

L JONSON: You've used the word "overt".

J MACBEATH: Yes.

L JONSON: What do you understand by the word "overt" agreement, and - we've seen in the paperwork references to covert agreements and overt agreements.

J MACBEATH: I've never used, and would never put in place, covert agreements.

L JONSON: Right.

J MACBEATH: As far as I'm concerned, if your business isn't fully transparent and open, which is what I mean by overt -

L JONSON: Yes.

J MACBEATH: - then it's not worth doing. I do not - I can honestly say to you, I have never entered into a

situation where I've entered into a covert arrangement with anybody. And it's all to do with transparency. Why I use the word "overt" in the context of Fana is that we do have these discussions around BAE all the time about the advisor relationships and so on, and overt is the way that people talk. And, you know, if you've nothing to hide, it should be in the open: transparency.

L JONSON: So, did you know that there were covert agreements in existence in relation to South Africa?

J MACBEATH: No, I didn't. Surely by the nature, if they were covert, I wouldn't know about them.

L JONSON: Well, some people - do you know how much was paid to advisors?

J MACBEATH: I don't, Lydia. I have read the speculation in some of the press articles. I have no idea whether it's true, close to the mark, or anything, because again - I stress again - the management of the advisor relationships was vested with Allan Macdonald and he would have been responsible for selection, appointment and remuneration. His marketing team, which was Niall Irving and Stuart McIntyre, will have had some day-to-day dealings with the advisors but I don't believe they would have had much to do with the remuneration. I think you've got to look at the senior levels to find out where that would have been vested, and for my part I was never party to

any discussions about rewarding them. And, as I say, I've read press articles but I don't even remember the numbers.

L JONSON: OK. I think I may have asked you this, so forgive me if I am repeating myself, but did Mr Hlongwane, as far as you are concerned, assist your team in any way in respect of the offset?

J MACBEATH: Before the contract, you would have said his assistance was limited to one of general advice, and I think he was useful to the campaign because Fana had plenty to say. I mean, he knew the politicians; he knew the industrial players and so on. And I - I mean, forgive me - I did say I didn't know he was a public official. I actually seem to remember that he was a board member of Denel, which is the state defence company, effectively.

L JONSON: He moved from being special advisor to Joe Modise, the Minister of Defence, which was a paid government job, to the board of Denel.

J MACBEATH: Right.

L JONSON: It's not clear at present exactly when that was. It was some time in '98.

J MACBEATH: Okay. As I recall it, Fana did provide us with general industrial advice. He knew what Denel were doing. He would have advised us in a general industrial capacity rather than specifics.

L JONSON: And in what period would that have been? Would that be the Macdonald era or the Smith era or both?

J MACBEATH: I think more in the Macdonald era than the Smith era.

L JONSON: Who would he have met with, after Macdonald left, if he had provided advice? Who would he be dealing with?

J MACBEATH: I'd be speculating but I would have to say it would be Kevin and Niall and Stuart.

L JONSON: If Kevin, Niall and Stuart all said, "We didn't deal with him in that period -

MR RAYMOND: Are you saying that that's what they did say?

L JONSON: No, I'm not saying anything, because, I mean, I'm not able to say who we have and haven't interviewed. But just hypothetically, I'm just trying to think who else could we speak to? It's really to find out if there's anyone else he might have dealt with during that period.

J MACBEATH: None of my people.

L JONSON: And you?

J MACBEATH: Limited. I mean, I did - yes, as long as Macdonald was there, I would have guessed that most times I visited South Africa I would have met either Charter or Hlongwane, purely on the basis that they spent most of their time with Macdonald

and I would have been in the room at the same time as them, I would have answered whatever questions they may have had. And indeed, if I had questions for them, they would have provided answers. But it would have generally been a general meeting with a touching on the industrial campaign, where we'd got to, where I thought we were going and so on.

Now that's Macdonald, myself, Stuart and Niall. After Macdonald left, you slide Kevin Smith in there and I think that is really it. Bernard, when he was appointed, which I've said to you was late in '98, along with Stuart, did forge a relationship with Fana, and I think he received much more specific industrial advice then because we'd moved into a new phase of the activity.

L JONSON: When was that? Which date?

J MACBEATH: Well, Bernard moved down there, I think, late 2000.

L JONSON: I'm sorry, I thought you said '98, because I was thinking that wasn't right. OK. That makes sense.

J MACBEATH: Yes. And again, after the contract became effective, my visits to South Africa became much more infrequent. I haven't visited this year; last year I think I visited twice; 2005, no more than two or three times. And that's kind of been

the frequency with which I've gone down there since the contract became effective.

So my dealings with Fana, by definition, would be limited. And, as I say, when I saw him a year ago he was very specific to say, "We don't see you any more." But there was no need for me to see him because I know that he spoke with Stuart and he spoke with Bernard.

L JONSON: We're coming to the end of the tape. Just one final question from me at the moment, which is: is it right then to say that you didn't have one-to-one meetings with Fana?

J MACBEATH: I don't recall ever being on my own with Fana.

L JONSON: OK. All right. It sounds like a sensible time.

B SMITHWHITE: OK. This is the end of tape 2. The time by my watch is 11.55.

(End of tape 2)

TRANSCRIPT OF INTERVIEW HELD AT ELM HOUSE, LONDON ON
FRIDAY, 16 NOVEMBER 2007

CASE REFERENCE: RLI02

TAPE 3 OF A BATCH OF 3

PERSON BEING INTERVIEWED: MR JOHN MACBEATH

PERSONS PRESENT:

LYDIA JONSON	-	COUNSEL
BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
PATRICIA REIDY	-	SERIOUS FRAUD OFFICE

B SMITHWHITE: This is tape 3 of the Section 2 interview with Mr MacBeath. The time by my watch is 12.24. Please can you confirm, Mr MacBeath, we have not discussed any matters relating to this case during the interval since the end of the previous tape, and that the same people are present?

J MACBEATH: I can confirm that.

B SMITHWHITE: Thank you. We have just got a few questions we'd like to round off the interview with.

J MACBEATH: Sure.

B SMITHWHITE: OK. Are you aware of Fana Hlongwane being tasked with anything specific in relation to offset in 1998 or 1999, as far as you can recollect?

RLI373

FIRST DRAFT

J MACBEATH: Specific tasking, I'm not aware. However, as I said previously, I did attend a number of meetings where the general subject of offset would have been discussed.

B SMITHWHITE: Thank you. And I'd like to run through some names, if you could just provide background to your level of contact with these people. You mentioned Chippy Shaik on tape 1.

J MACBEATH: Yes.

B SMITHWHITE: What was your contact with him?

J MACBEATH: Chippy Shaik was part of the negotiating team on the contract, so my interaction with Chippy would have been in the normal course of negotiations and I would have interacted with him to the same extent as I did with anybody else on the South African side who was involved, no more and no less.

B SMITHWHITE: OK. And LLew Swan?

J MACBEATH: LLew Swan I have met only a handful of times. I don't really even recall the role that he portrayed, but I do know the name and I can confirm that I have met him on two or three occasions.

B SMITHWHITE: The next one is Andre Cok. Possibly, is he Saab?

L JONSON: No, I think he's Armscor but I think he might be the technical side.

J MACBEATH: OK. There is some vague recollection of the name but I couldn't put a face to it, which would tell me that I haven't really had any significant dealings with him.

B SMITHWHITE: OK. Roland White?

J MACBEATH: Roland White was on the South African side. His principal responsibility, as I recall, was to negotiate the details of the structured finance package and he would have dealt in that with Barclays, but I never discussed in detail the financing arrangements with him.

B SMITHWHITE: The next one is Jayendra Naidoo.

J MACBEATH: Jay Naidoo led the South African negotiating team. He was effectively Kevin Smith's negotiating counterpart.

B SMITHWHITE: Did you have much contact?

J MACBEATH: I met him several times, yes, but just as part of the in around discussions around how the negotiations were going and so on. From memory, I recall that he would have dealt principally with Allan Macdonald prior to his departure, and after his departure he would have dealt directly with Kevin.

B SMITHWHITE: Just a few more names to go through.

J MACBEATH: Sure.

B SMITHWHITE: Any contact with Joe Modise at all?

RLI373

FIRST DRAFT

J MACBEATH: I've never met Joe Modise.

B SMITHWHITE: Thabo Mbeki?

J MACBEATH: Never met Thabo Mbeki.

B SMITHWHITE: Stella Sigcau?

J MACBEATH: I have met Stella. She was the Minister of Public Enterprise. She visited the UK on one occasion and I accompanied her during that trip to our factories in Wharton - in fact, I accompanied her to the Airbus factory in Wales first of all at Broughton, and then on from Broughton to Wharton, where she saw round the factories. As I recall, on that trip she was accompanied by Fana Hlongwane and we had a meeting on that trip with Peter Mandelson, who was then the Minister for Trade and Industry.

L JONSON: Do you remember when that was?

J MACBEATH: I don't. '98/'99, I would guess, but the precise dates I couldn't say, but - no, I couldn't help. But Stella Sigcau was the Minister of Public Enterprise, I believe, and part of her responsibility would have been in running the state industries, which would have included Denel. And we indeed did, after the contract became effective in South Africa, discuss with the South Africans the question of taking a strategic equity stake in Denel. Those negotiations cratered; they never went anywhere.

L JONSON: Just out of interest, who was involved in the negotiations to purchase the stake, from the BAE, from the BAE side?

J MACBEATH: It would have been somebody from our strategy and planning group, and I - one of them would have been Spencer Laycock, as a name, and I think Neils Petersen, the finance guy from marketing, would have been involved.

B SMITHWHITE: Do you know in what capacity Fana Hlongwane accompanied Stella Sigcau on the trip to the UK?

J MACBEATH: I don't recall specifically in what capacity he accompanied her but I'm pretty sure he was there.

B SMITHWHITE: And the next name is Trevor Manuel.

J MACBEATH: Trevor Manuel was the financial minister at the time the transaction was struck. I met him briefly at a reception but it was no more than cursory pleasantries.

B SMITHWHITE: I think you mentioned Alec Erwin before. He was with the DTI.

J MACBEATH: Alec Erwin, he was the Minister of Trade and Industry. I did attend a couple of meetings probably with Alec, but again, I was one of the crowd. I think one of the meetings was with a Swedish delegation and we just let them get on with it because it was like a love-in.

B SMITHWHITE: The next name is Tony Yengeni.

J MACBEATH: I never met Tony Yengeni but I know the name.

B SMITHWHITE: And there was one other BAE employee, who might have been before your time. His name is Robbie Roberts.

J MACBEATH: Robbie Roberts was before my time. The names I gave you are the individuals who were stationed in Johannesburg at the time that I became involved, Niall Irving, Stuart McIntyre and David Williams. I believe Robbie Roberts went before them, so I've heard his name mentioned but I have never met him and I don't know him.

B SMITHWHITE: OK. Thank you.

L JONSON: Just going back to Tony Yengeni: did you - you said you've heard of his name. Is that in the press or is it -

J MACBEATH: In the press.

L JONSON: Right. Not through contact he may have had with other BAE people in South Africa?

J MACBEATH: Not to my knowledge, no.

L JONSON: OK.

B SMITHWHITE: You mentioned before that the offset programme has been successful in reaching milestones in April 2004 and 2007. Can you give us some examples of the projects that have worked in South Africa?

J MACBEATH: Yes, sure.

B SMITHWHITE: This is just for our background.

J MACBEATH: There are in excess of 30 projects up and running that we've had an involvement with, and they range from a forestry programme (which has been highly successful); there's a tyre-manufacturing programme through a previous Dunlop organization that still operates down there; the gold beneficiation is there, of course; we have some tourist involvement: assistance towards the development of an area to the north of Durban - a coastland wetlands area that they want to develop for tourism; there's been a medical/dental-related programme. As I say, there's in excess of 30 projects now.

In addition, directly related to the aerospace and defence industry, Aerosud, a South African company, are now on the main Airbus supply chain because we transferred a whole pile of technology and capability in there and they are now amongst the most favoured suppliers to Airbus.

The largest single valuation involved in the successful delivery to date actually centres round the Saab acquisition of Denel Aerostructures. They bought the aerostructures wing of Denel as part of the NIP deal.

L JONSON: Right. And that would be NIP and not DIP?

J MACBEATH: It's NIP because Denel Aerostructures are major in civil aircraft and why Saab drove the negotiations

- at its purest, the application of DIP would encompass that transaction. However, DIP is pretty much wholly discharged by both BAE and Saab, so the need from our perspective was for NIP credits; the need from the South African Government's perspective was to find a buyer for Denel Aerostructures; so the negotiation centred around meeting the expectations on price and then meeting our expectations on where we needed the IP credits, so that was the trade-off.

L JONSON: Right. OK. Is there a list somewhere - there must be, presumably - of the projects that have, that are ongoing or have been completed?

J MACBEATH: Yes, the DTI -

L JONSON: Our DTI or their DTI?

J MACBEATH: Their South African DTI. There is an IP secretariat that sits within the Department of Trade and Industry in South Africa and they are required to make an annual report to Parliament, and they publish a report, and that details a number of the projects. It details the values that have been certificated and signed off. It's in the public domain.

L JONSON: And presumably that would apply to all the other bidders as well?

J MACBEATH: All of them. It's a consolidated IP report and it actually shows who's achieving and who isn't, and the story to date, I think, has been a successful

one for South Africa. I mean, by and large, the defence contractors are fulfilling their obligations and there is a story to tell about employment, stimulation of investment and so on. So it's pushed the buttons that the South African Government wanted to be pushed. There's always the discussion about whether the full benefits ever derive to South Africa and so on, but as I think I said to you earlier, in offset nobody remembers when you do it properly, they remember when you get it wrong, which thankfully doesn't happen too often for us.

B SMITHWHITE: Anything else on offset?

L JONSON: No.

B SMITHWHITE: Okay. Were you aware back in 1998 and 1999 of anyone ever being approached with an offer of money being offered to secure the contract?

J MACBEATH: Absolutely not. In fact, I couldn't conceive of that situation, in that (a) I wasn't aware of it, but everywhere I turned there was the British Government, the Swedish Government and so on, and we were fully supported by the government. If there'd been any sense that there may have been corruption, I can't see that Tony Blair would have fronted up and lobbied on our behalf, or Mandelson would have lobbied. No, I'm not aware.

L JONSON: OK.

B SMITHWHITE: Anything else?

RLI373

FIRST DRAFT

L JONSON: No. I'm done, thank you.

B SMITHWHITE: OK. That's the end of our questions for this morning. I'd like to offer you an opportunity to clarify or add anything in relation to this interview.

J MACBEATH: No. I've tried to answer all of your questions in as full and complete a manner as is possible. Nothing has sprung to mind in any of the breaks that we've had that I could have expressed to you incorrectly. I hope I've provided you with some helpful and useful information.

B SMITHWHITE: Yes, thank you. OK. The time by my watch is 12.37 and this concludes our interview with Mr MacBeath.

(Interview Concluded)

Alan Curtis
Alec Erwin
Alex Roberts
Allan Macdonald
Andrew Humphreys
Basil Hersov
Bernard Collier
Chippy Shaik
Chris Geoghehan
David Williams
Fana Hlongwane
Gripen
Jayendra Naidoo
Joe Modise
John Bredenkamp
Jules Pelissier
Keith Pates
Kevin Smith
Mike Rouse
Llew Swan
Mike Turner
MKVA
Nabil Hajazi
Neils Petersen
Niall Irving
Nick Franks
Osprey
Pat Gosden
Richard Charter
Richard Friedman
Rick Passaportis
Robbie Roberts
Rod Pemberton
Shabir Shaik
Sir Charles Masefield
Stella Sigcau
Stuart McIntyre
Thabo Mbeki
Tony Yengeni
Trevor Manuel
Trevor Wilmans
Walter Hailwax