

TRANSCRIPT OF INTERVIEW HELD AT THE SERIOUS FRAUD OFFICE ON  
THURSDAY, 4<sup>TH</sup> OCTOBER, 2007.

CASE REFERENCE RLI02

TAPE 1 OF A BATCH OF 6

PERSON BEING INTERVIEWED: SIR KEVIN SMITH

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MS CAROLINE HALLIDAY	-	SOLICITOR

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B SMITHWHITE: This interview is being tape recorded. The time by my watch is 9.28 on the 4<sup>th</sup> of October, 2007. We are in interview room 2 at the Serious Fraud Office. I am Brenda Smithwhite, Investigator and assisting in investigating the affairs of BAE Systems Plc and Red Diamond Trading Limited. I am interviewing Sir Kevin Smith who is accompanied by his solicitor Caroline Halliday. 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.

K SMITH: Sir Kevin Smith, Berkhamstead House, St. Levitt's Hill, Windsor and my date of birth is 22<sup>nd</sup> of May, 1954.

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B SMITHWHITE: Thank you.

C HALLIDAY: Caroline Jane Halliday of 18 Melville Place, London, N1 8ND. My date of birth is 13<sup>th</sup> October, 1979.

B SMITHWHITE: Also present are my colleagues Gary Murphy and Lydia Jonson.

G MURPHY: Yeah, Gary Murphy, Principal Investigator at the Serious Fraud Office.

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

B SMITHWHITE: Please can you confirm Mr Smith that you have received a copy of the Section 2 notice dated 17<sup>th</sup> August, 2007 in respect of BAE Systems Plc and Red Diamond Trading Limited?

K SMITH: I can.

B SMITHWHITE: Did you understand that notice?

K SMITH: I did.

B SMITHWHITE: Mr Smith, during this interview you will be asked to provide information to assist in this investigation into suspected serious or 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 the 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. Please can you take a few minutes to read that?

K SMITH: Okay.

**[Pause as document is read]**

K SMITH: Okay.

B SMITHWHITE: Thank you. Each tape lasts for 45 minutes and just before the end of the tape there will be a buzzer and we'll aim to wrap up that tape.

K SMITH: Okay.

B SMITHWHITE: If at any time, you want to stop the tape and have a discussion with Caroline, then let us know.

K SMITH: Okay.

B SMITHWHITE: Okay?

K SMITH: Yeah.

B SMITHWHITE: If there's no further questions, we can start.

G MURPHY: Okay, what I'll do then, as I mentioned earlier, I'll just give a brief background of what it is that we're interested in. We're investigating allegations that corrupt payments were made to South African Public Officials by agents on behalf of BAE Systems or British Aerospace as it was then -

K SMITH: Yeah.

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G MURPHY: - to enable British Aerospace, BAE Systems to secure the Hawk/Gripen contract. Okay, so it's the Hawk/Gripen contract that we're specifically interested in.

K SMITH: Okay.

G MURPHY: Now, the Hawk/Gripen contract formed just one part of the overall strategic defence procurement package of South Africa. You're probably aware of that?

K SMITH: Yeah.

G MURPHY: Now we want to question you about that contract which was eventually signed between the South African government and BAE. We're particularly interested in your knowledge of how this contract was won and any involvement you may have had in that.

K SMITH: Yeah.

G MURPHY: We're interested in your first-hand knowledge of the involvement of other BAE personnel, your knowledge and involvement in the appointment of advisors, consultants, agents. We've heard them called all -

K SMITH: Yeah.

G MURPHY: - different things and any subsequent renewals, amendments and any payments in relation to those agreements.

K SMITH: Okay.

G MURPHY: And again in relation to that, any first-hand knowledge you have of the involvement of others within BAE.

K SMITH: Okay.

G MURPHY: Okay, so quite a wide spectrum but all in relation to the Hawk/Gripen contract.

K SMITH: I understand.

G MURPHY: Now, we'll be as specific as we can in our questioning but the idea, from our point of view, is to obtain the full extent of your knowledge in relation to this matter. So therefore please try and answer as fully as possible.

K SMITH: Sure.

G MURPHY: I will mention now that like your solicitor we will be taking notes at various stages.

K SMITH: Okay.

G MURPHY: Okay, so I think a good place to start really would be could you give us a brief overview of your career, your CV really -

K SMITH: Okay.

G MURPHY: - just so we can see where BAE fits in, in the greater scheme of things.

K SMITH: Okay. I, do you want me to start after sort of college and, do you want me to go right back?

G MURPHY: Yeah, why not?

K SMITH: Okay, I'll go right back.

G MURPHY: Just briefly, just briefly.

K SMITH: Okay, very briefly then. I'd sort of left school at 16 and sort of started work, factory work, got sort of educated at night school and then did a sort of business studies degree. After which I joined what was the British Aircraft Corporation in 1980 in Preston in Lancashire at Wharton. It was the Military

Aircraft Division. I joined in the contracts department and worked on export programmes and also UK Government programmes and tri-national programmes such as Tornado, collaborative programmes, Jaguar. Worked through the commercial organisation, became a commercial director in that division and then deputy managing director and in 1992 was appointed as managing director of the Military Aircraft Division.

In 1995, I was asked to move out of the Military Aircraft Division and go work in the Corporate Headquarters in Farnborough, in the South of England for the then Chief Executive Dick Evans to do some, one of those horrible jobs, on sort of strategy and corporate change which I hated but did.

I then became deputy managing director to John Weston for the defence systems businesses and after that when John Weston was appointed as chief executive of the group, I was appointed into a new position which was group managing director of new business and that involved a range of things including relationships with the United Kingdom Government and new programme, selling and support with the United Kingdom Government. Also the Defence Export Organisation came under my remit at that time too and this was in 1998.

G MURPHY: Is that DESO?

K SMITH: No. It was, it's within, the DESO's a

government agency -

G MURPHY:

Oh right.

K SMITH:

I mean BAE as you know had a central defence export sales and marketing organisation in Farnborough, so I had responsibility for that.

I was also on the board of directors of Saab Aircraft in Sweden and I was also chairman of BAE's missiles joint venture with, essentially at that time, it was with the French. I had a range of sort of responsibilities within that portfolio.

At that time, I was actually looking to leave BAE. I mean, it was not a job that I actually wanted to do. I wanted to get back to operations and I agreed to do that job for a year whilst John Weston went through his transition into CEO and then the plan was that I would leave which is eventually what I did.

So that's basically what happened, 1999, sort of left BAE and joined GKN.

G MURPHY:

When in 1999 did you leave?

K SMITH:

I actually resigned I think in May and left in November. So -

G MURPHY:

Okay.

K SMITH:

- I had a sort of six months notice period which I worked and a part of that was to try and sort of help through the South African programme which I was involved in at that stage in BAE Systems, and then joined GKN, joined to board of GKN, had responsibility for the GKN's aerospace businesses and in January 2003, I was appointed

as chief executive of GKN Plc which is the job that I still do today.

G MURPHY: Okay. Right. So when was it that you first had your involvement in South Africa and the Hawk/Gripen contract?

K SMITH: I mean it sort of started when I was originally in the Military Aircraft Division. I mean as you know the sort of sales campaign went over a long period through the 1990s -

G MURPHY: Yeah.

K SMITH: - and at that stage we were actually doing proposals into South Africa for the supply of Hawk but I believe it was something, one of a sort of range of programmes they were looking at. I mean it wasn't one that we're sort of heavy into the full sales activity, so it was really at that stage I had some initial involvement in it.

G MURPHY: Right. What year are we talking about here? Is this the -

K SMITH: This would be, it would be between I guess 1992 to sort of 1994, that sort of timescale.

G MURPHY: Right, okay, so that's before you went to work for Dick Evans basically?

K SMITH: Absolutely, I mean the job was you know, I mean, we built the aeroplanes you know, so we had to produce -

G MURPHY: Yeah.

K SMITH: - specs and costings and that sort of stuff.

L JONSON: So it was a commercial, it was to do with the commercial side of it rather than the marketing?



K SMITH: Well, yeah. I was actually sort of managing director of the business at that time. So we had our sort of sales support, technical sales staff as we would call it, a commercial staff that would prepare proposals within the division. As managing director I mean I approved what we'd have to put together in those proposals. So in those days, you know, it was the early stages of selling, marketing Hawk in South Africa.

G MURPHY: Yeah.

L JONSON: Sorry, can I ask one more?

G MURPHY: Yeah.

L JONSON: Would you have any contact with any kind of consultants at that stage?

K SMITH: No.

L JONSON: No. Right.

K SMITH: No.

G MURPHY: Okay, so, that was your initial -

K SMITH: Yeah.

G MURPHY: - look at the South African contract. When you started to do this project for Sir Dick Evans, did that take you away from the South African contracts?

K SMITH: It did.

G MURPHY: It did, and when did you get back involved after that?

K SMITH: In 1998 when I took the job as group managing director of new business.

G MURPHY: Right, 1998. Roughly when in 1998?

K SMITH: I think it was March time when I actually came

back into that role.

G MURPHY: Okay, so group managing director of new business, we'd actually seen that on one of the documents and that was a new, a new title to us. Exactly what was that? What was that all about?

K SMITH: I mean, what had sort of happened was the defence marketing organisation had essentially been led independently. I think before me Mike Turner had responsibility for it, was it IMSO it was called, yeah?

G MURPHY: Yeah.

K SMITH: It may be a familiar term to you.

G MURPHY: Yes.

K SMITH: And during that period, the sort of group decided they wanted to strengthen that group and brought some sort of guys in into senior positions within the marketing organisation. So there was sort of regional sort of directors at that stage.

G MURPHY: Yeah, there were regional managing directors. RMDs or something.

K SMITH: That's it.

G MURPHY: Yeah.

K SMITH: So, I think it was felt that having done that then in the senior position it probably needed a bit of a lighter touch. Mike Turner had been quite heavily involved. Now with four, sort of, regional managing directors, I moved in as essentially their boss in that group -

G MURPHY: Right.

K SMITH: - but what I also had which was new was a range

of other responsibilities which included the selling and marketing to the United Kingdom government and the relationship with the UK MOD and I also had sort of various other appointments for GKN and I mentioned chairman of the missiles joint venture that they had with the French.

G MURPHY: Yeah.

K SMITH: And I was also on the board of Saab. I actually did the transaction to acquire BAE's shareholding in Saab and went on the board at that time. So, I had a range of responsibilities, one of which was for the IMSO organisation within that group.

G MURPHY: Okay, so you over saw it?

K SMITH: I did.

G MURPHY: So really you were between the RMDs and Mike Turner at that time?

K SMITH: It was John Weston I think at that time and maybe Mike.

G MURPHY: Was it John?

L JONSON: I think you said you became managing director in the new business when John Weston became CEO in 1998.

K SMITH: That's it.

L JONSON: So what role would Mike Turner have been? Was it COO or -

K SMITH: I think Mike sort of had a funny role. I mean he did have, he was still involved in the marketing side because he'd been involved in the marketing side for a long time.

G MURPHY: Yeah.

K SMITH: But I mean I can't fully remember what he was doing. I think he was doing activity on the commercial aircraft side because I think at that time, BAE were going through the airbus reorganisation. I think like me, I mean, it was a funny stage in BAE. I think like me he probably had a range of things that he did. He was still involved in the marketing activity and he was doing some sort of commercial aircraft stuff too.

G MURPHY: Right.

K SMITH: So, I'm not, to be honest with you, I just don't remember all that sort of was panning out.

G MURPHY: Yeah. Okay, so one of your areas then in that role -

K SMITH: Yeah.

G MURPHY: - would have been South Africa.

K SMITH: Yeah.

G MURPHY: And I think at that time the regional managing director was Allan Macdonald.

K SMITH: Allan Macdonald, yeah.

G MURPHY: Okay. So how did you, how did your work interface with the work of Allan Macdonald?

K SMITH: Well Allan, I mean, Allan had responsibility for running the marketing campaign and I, I mean, essentially supported him where he needed help, but to be honest with you the sort of majority of my involvement at that time was really in supporting him with the divisions. I'd been managing director of the Military Aircraft

Division, so you know people there, I think, sort of respected me a little bit. I mean, I could actually get things done in the businesses and similarly with Saab, being on the board of -  
G MURPHY: Yeah.

K SMITH: - the Saab company, I mean, I could actually help Allan get responses and you can see from the correspondence. I mean, there's quite a lot going from the IMSO Organisation which was quite detached from the businesses into those businesses. So I'd really helped there and any support that Allan needed which frankly I mean wasn't a great deal at that time. He was sort of very much you know running that campaign at that time.

G MURPHY: Yeah, so here we're still talking around 1998?

K SMITH: We are.

G MURPHY: Yeah.

K SMITH: Yeah.

G MURPHY: Yeah. Right, okay. Who did Allan report to, do you know?

K SMITH: He reported to me at that time.

G MURPHY: It was through you?

K SMITH: Yeah.

G MURPHY: Okay.

L JONSON: Who would he have reported to before you?

K SMITH: Mike Turner.

L JONSON: Okay.

G MURPHY: Right. So if Allan had issues in South Africa, meetings that he wanted to arrange in country, marketing the products etc, etc, would he

discuss those with you?

K SMITH: Not really. I mean there's a lot of autonomy in that group.

G MURPHY: Yeah.

K SMITH: You know, those guys, I mean Allan had already had a big job in BAE, so he had you know responsibility for running that campaign amongst others, as did the other regional managing directors.

G MURPHY: Yeah.

K SMITH: So they were sort of real managing directors that had been empowered to do that job. I mean, what I did was to sort of over-view, from time to time, campaigns and really help with the interface for the businesses. So where I sort of spent my time in IMSO was really looking at the organisation, so looking at the regional office structure that we had and we did some work to sort of restructure and rationalise that, and also building stronger relations back into the businesses. So, I did go into the businesses. I would talk to the guys about the various campaigns including the South African campaign. I had less involvement in that stage in the campaign itself. They had been up and running for a long time.

G MURPHY: Yeah.

K SMITH: It was well advanced in 1998.

G MURPHY: Yeah.

K SMITH: So, there was little sort of really great involvement for me to have at that stage to be

honest.

G MURPHY: Yeah. I'm not quite sure what you mean when you say dealing with the guys in the businesses. What other businesses? It might just be a misunderstanding on my part.

K SMITH: Okay, no, no, it's fine. The Military Aircraft Division produced the Hawk Aircraft.

G MURPHY: Yeah.

K SMITH: Within BAE and Saab produced the Gripen.

G MURPHY: Right okay.

K SMITH: So, you can see from the correspondence Allan is saying, 'We need to change the spec and need some more direct industrial participation.' All that, and he sort of does it through notes and there's sort of, I helped with the interface within the divisions to try and get responsiveness out of them to actually support the campaign in South Africa.

G MURPHY: Right.

K SMITH: So that's where during 1998, I mean the majority of my support to Allan was. So, that was really it.

G MURPHY: Right. Okay, I understand now.

L JONSON: Yeah, it does, and just to get it right, it's essentially, it's quite clear that the price of the Hawk had to be reduced over a period time and that you were really interfacing with the people, the guys who were making it to see how -

K SMITH: What we could to support that.

L JONSON: Yeah.

K SMITH: I mean, and also the direct industrial

participation, you can see there's a lot of work to be done in country and this is I mean including South African systems that have been put into the aeroplane which needed to be engineered. There's procurement organisation that needs to support and find South African supplies for. So there's a lot of complexity in the technical standard of the aeroplane.

G MURPHY: Hmmm.

K SMITH: And what would be supplied into South Africa.

L JONSON: Hmmm.

K SMITH: And the specification of the aeroplane was continually changing -

G MURPHY: Yeah.

K SMITH: - right through to the end and again, you can see that through the correspondence.

G MURPHY: Yeah.

K SMITH: And I mean traditionally the defence marketing organisation had been sort of pretty self-contained and the relationships into the businesses you know weren't very strong to be honest. I mean, marketers and guys that build things don't you know often get on -

L JONSON: No. No.

K SMITH: - so there were things there that needed to be done and I helped with that process. During that period I would say in terms of South Africa that was really my prime involvement in what was going on.

G MURPHY: Yeah, okay. During that time, around 1998, were you spending much time in South Africa?



K SMITH: No. I can't, I don't think I went to South, I mean, I may be wrong and you might have my diaries but I cannot remember going to South Africa until early 1999.

G MURPHY: Right, okay. So when you came in in 1998, March, obviously Allan had things moving in South Africa and they had a set-up within South Africa, do you have any knowledge of that set-up. I understand BAE, South Africa was an office that was set up in Pretoria. Do you have any knowledge of that set-up?

K SMITH: I knew there was an office in South Africa and I knew I think Niall Irving was sort of based in South Africa at that time with a small team there.

G MURPHY: Right.

K SMITH: I mean, I wasn't, I became familiar in 1999 because -

G MURPHY: Sure.

K SMITH: - I did spend time there, but during 1998 -

G MURPHY: Yeah.

K SMITH: - I can't say that I was sort of particularly familiar with how it was set up and who was doing what.

G MURPHY: No.

K SMITH: I mean, I knew Niall was the regional guy in South Africa working for Allan on that campaign.

G MURPHY: Yeah.

K SMITH: And I knew we had a sort of small team of folks sort of down in an office in South Africa.

G MURPHY: Yeah, can you remember who they were at that

time?

K SMITH: I can't.

G MURPHY: No.

K SMITH: I mean, I can't.

G MURPHY: No, okay. That's fine. So, that sort of takes us through 1998. Anything on 1998?

B SMITHWHITE: No.

G MURPHY: No. Brenda on 1998? So, there came a time where what we've learned there was some changes in staffing and I think Allan Macdonald left.

K SMITH: He did.

G MURPHY: Yeah? Could you talk us through what happened there? Do you know why Allan left?

K SMITH: I mean, it's, my sense, okay, why sort of Allan left, I mean Allan had been sort of brought in to and I'd say Allan is a much better guy to give you the reasoning than myself, okay -

G MURPHY: Sure, I just want to -

K SMITH: Yeah, yeah, I can fill in my bit. Allan sort of when he moved into that job had a set of expectations that weren't being fulfilled in terms of what he wanted out of the role. I mean I think he'd sort of moved down to London from Scotland.

He'd expected that things would be better financially, expected his position would be better and he was very agitated about that and that agitation sort of boiled over into his relationships in the business and with the people that worked in the business, his team and people around him which, I mean, a number of

people were very uncomfortable with including myself.

I mean this sort of got to the stage sort of early in 1999 where we'd sort of decided as a group that we should part company with Allan and I explained to Allan. I was the one who explained to him that his aspirations -

G MURPHY: Oh right.

K SMITH: - weren't going to be met and therefore we felt that it would be better at that time that we actually parted company and to be honest from that stage until the time that Allan left, I'm not sure what was done in terms of arrangements for him leaving etc. I mean what I did was to hand him over to principally the HR director at that time to go through that process and Mike who we'd sort of hoped to see, you know, being brought into that position with.

G MURPHY: Yeah.

K SMITH: So that was what we went through in that time. I can't just remember exactly when it was.

G MURPHY: No.

K SMITH: But I think sort of February time, maybe January, February time in 1999.

G MURPHY: Okay. You said you were the one who had to explain all this to him -

K SMITH: Yeah.

G MURPHY: - and you've obviously had this discussion. With whom did you discuss this before Allan? Who else within BAE had you discussed these issues about Allan with?

K SMITH: John Weston, Terry Morgan who was the HR director. Mike Turner was also involved and Dick Evans although I'm not sure whether, I can't say to you that I sat down with Dick and discussed it. I certainly did with Terry Morgan and John Weston -

G MURPHY: Right.

K SMITH: - and I am sure that both Mike Turner and Dick were involved in the discussion around it and the decision that we should basically say to Allan that we just couldn't meet his aspirations and therefore we felt it better if we part company.

G MURPHY: Right. So that came from BAE -

K SMITH: Yeah.

G MURPHY: - as opposed to Allan turning around saying, 'I'm sorry. I can't. This is not what I want or-'.

K SMITH: I mean, to be honest, I think it probably would have got there eventually anyway, okay?

G MURPHY: Yeah.

K SMITH: I mean the sort of road that we were on there, it was extremely dysfunctional within the organisation and that time and visible to sort of a lot of people and -

G MURPHY: In what way?

K SMITH: I mean, just, I mean, just Allan you know made it known that he was uncomfortable you know. He talked to people and you know he was sort of agitated around what was going on. I mean you know if people are talking -

G MURPHY: Yeah.

K SMITH: I mean, it was that sort of thing.

G MURPHY: Yeah.

K SMITH: I mean, he was in a leadership role. I mean it's not sort of particularly healthy within a group.

L JONSON: I mean what were his expectations that weren't being fulfilled? Do you know?

K SMITH: I think he wanted, I mean, I'd be sort of, I mean the generality of is was -

L JONSON: Yeah.

K SMITH: I sort of think financially he thought he would be better off moving to London. I mean he had sort of kids in private school in Scotland. I don't think that Allan felt that he had been sort of properly taken care of in the move from where he had been previously, which I think he came out of Prestwick -

L JONSON: Yeah.

K SMITH: - and the job there down into London. I think that was primarily it. You know the whole sort of sense of, 'Now I was sold this job as a sort of regional managing director as a very senior role in the organisation', which it is, 'and I don't feel that my expectations in that role have been fulfilled'. So it was that sort of thing that was going on.

G MURPHY: Were there any issues surrounding this whole issue that raised any worries about any impropriety that Allan may have been involved in?

K SMITH: No.

G MURPHY: No. So, we're not talking about that -

K SMITH: We're not talking about that. We're talking about relationships with the people -

G MURPHY: Okay.

K SMITH: - the staff, the people around him and it's really that.

G MURPHY: Yeah.

K SMITH: It was not any issues around Allan from that point of view.

G MURPHY: Right. Okay. Okay, there came a time then where you, did you take over from Allan Macdonald?

K SMITH: I sort of did.

G MURPHY: Right.

K SMITH: I mean essentially sort of what had happened at that point in time, again, I mean, as I say, I had a range of things to do. So I was still doing my range of things.

G MURPHY: Right.

K SMITH: What had happened at that time was that the Hawk and Gripen had both been selected -

G MURPHY: Yes.

K SMITH: - and the South Africans had appointed a negotiating team to actually lead the move from that selection through to contract.

G MURPHY: Yes.

K SMITH: I took over the leadership of the interface with that negotiating team.

G MURPHY: Right.

K SMITH: So, Jayendra Naidoo was the guy who led the

team. I started to interface with Jayendra and I led that negotiation process you know through to getting the document signed which is in here which is the MOU document.

L JONSON:

Yeah.

K SMITH:

So really that was where I was intensely involved in what was going on in South Africa -

G MURPHY:

Right.

K SMITH:

- and there was a big team. We still had Niall Irving who was sort of operating on the marketing side.

G MURPHY:

Yeah.

K SMITH:

We had people from the Military Aircraft Division who were out there, Pat Gosden on the commercial side, other people on the technical side.

L JONSON:

Yeah.

G MURPHY:

Yeah.

K SMITH:

We had a Saab who had a team sort of out there in South Africa with a bunch of folks too. We had the National Industrial Participation team, the Defence Industrial Participation team. We had all -

G MURPHY:

All the BAE staff?

K SMITH:

Mostly, Saab staff -

G MURPHY:

Or Saab.

K SMITH:

- I mean a mixture of Saab and BAE and then we had the Barclays people who were in and out on the financing side. So there's a whole sort of bunch of people to be corralled into focusing on getting this deal and that's the role I playing

during that period.

G MURPHY: Okay. You mentioned a couple of teams.

K SMITH: Could I just have some more water?

G MURPHY: Yeah, sure.

K SMITH: Thanks.

G MURPHY: You've mentioned a couple of teams there. If we can go back and just try and little bit more specific.

K SMITH: Okay.

G MURPHY: You mentioned Jayendra Naidoo -

K SMITH: Yeah.

G MURPHY: - and his team?

K SMITH: Yeah.

G MURPHY: Who was his team?

K SMITH: The negotiating team that was appointed was led by Jayendra. He had participation from the various departments involved in putting this deal together from the South African side. So Roland White was, came from the Ministry of Finance. I think it was, there were two guys from the DTI, one was I think Vannan Pillay -

L JONSON: Vannan Pillay, yeah.

K SMITH: Yeah, and there was another guy who was his boss, a sort of -

L JONSON: Not the Minister?

K SMITH: No, not the Minister, a guy, he sort of flitted in and out. His name's in here somewhere I think. We may sort of come across it. LLew Swan from ARMSCOR and Chippy Shaik who was the guy, the DG in the Department of Defence.

G MURPHY: Yeah?



L JONSON: Sorry, DG?

K SMITH: Director General -

L JONSON: Right, okay.

K SMITH: - in the Department of Defence and I think that was it. I mean that was Jayendra's sort of negotiating team.

G MURPHY: Okay. So, if meetings were called, it would be that group of people that would front the meetings?

K SMITH: In terms of the formal negotiation process, and it was a formal process. I mean that team was interfacing with a number of companies. It was supplying into the defence package. So, it was very formally controlled because the fair treatment for everybody, take everybody through the same process.

G MURPHY: Yeah.

K SMITH: So, yes, and all those guys would attend that, those meetings.

G MURPHY: Okay. Before I move on, is there anything you want to ask on that?

L JONSON: No, not on that. No.

G MURPHY: No. Okay, so then you've mentioned a number of teams that were BAE/Saab employees?

K SMITH: Yeah.

G MURPHY: I can't remember, what's the first one? Did we make a note of it?

L JONSON: It was just a general -

K SMITH: In country team?

G MURPHY: Yeah, yeah, the general, we'll start off with that one first.

K SMITH: Yeah.

G MURPHY: Who actually was on that team?

K SMITH: Niall Irving.

G MURPHY: Yeah, Niall.

K SMITH: Pat Gosden who was doing the commercial side.

G MURPHY: Niall was marketing, was he?

K SMITH: Niall was marketing.

G MURPHY: Yeah?

K SMITH: Pat was doing the commercial side.

L JONSON: Was he in-country as well?

K SMITH: He was, he was almost resident during that period. I mean, he was actually sort of still based in the UK but he spent the vast majority apart from the odd weekend here and there, he spent a lot time out there during that period. Andrew Humphreys who was sort of helping out on the off-set side and industrial participation side.

That would probably be it in-country. I mean, John MacBeath had responsibility for the off-set side. So he was in and out of that team too, but he was based in the UK and travelling backwards and forwards to South Africa.

G MURPHY: John Macbeath.

L JONSON: [Inaudible]

G MURPHY: Yeah.

L JONSON: What about Stuart McIntyre?

K SMITH: Stuart was there, yeah. Sorry, yeah. Stuart was out in South Africa.

L JONSON: And what was his role?

K SMITH: He sort of worked between Niall and Pat and he

was, he supported Niall on the marketing side and acted as an interface with the commercial team and their project management team that was out in South Africa.

L JONSON: Okay.

G MURPHY: Right. Anybody else?

K SMITH: I can't sort of think of anybody else in that team.

G MURPHY: Okay. What about in the way of people with technical expertise?

K SMITH: Yeah.

G MURPHY: Was there anybody involved in the, you know, technical sides, specifications?

K SMITH: Are you still talking about BAE?

G MURPHY: Yeah.

K SMITH: John Farrell led on the Hawk. So he was again one of the sort of guys that was sort of backwards and forwards into South Africa all the time during that period.

G MURPHY: Okay. Another name that we've come across is Sir Patrick Hine.

K SMITH: Yeah.

G MURPHY: Do you know anything about Patrick Hine?

K SMITH: Paddy would have only visited, I mean, Paddy was you know, I mean he was the defence advisor to BAE and Paddy's role would be from time to time to interface with the chief of defence force in South Africa, the chief of the air force just to have a discussion about is everything okay, do you like the aeroplane you're going to get, is the spec alright, you know, can I buy you a

beer.

G MURPHY: Right.

K SMITH: So it was that sort of role. He was not involved in you know the sales and marketing activity as a direct player in that process.

G MURPHY: Right.

K SMITH: It was very much an ambassadorial role within BAE and he may have been to South Africa once or twice during that period.

G MURPHY: Right, certainly the period that you were there in your new role -

K SMITH: I can't remember Paddy being there actually.

G MURPHY: Post Allan McDonald not much of an involvement -

K SMITH: No.

G MURPHY: - as far as you are aware?

K SMITH: Yeah.

G MURPHY: Okay.

L JONSON: What about a guy called Steve Meighan?

K SMITH: Yeah, Steve, I'm not sure he spent much time out in South Africa. He was in Allan's marketing team -

L JONSON: Right.

K SMITH: - based at Farnborough. So Steve was around but I can't remember Steve being out in South Africa at all during that period.

G MURPHY: Okay. What was the role if any specific role -

K SMITH: Do you want me to just give you the two Saab guys?

G MURPHY: Oh sorry.

K SMITH: - so we don't, there's a guy called, I can't remember his first name, was it Muller?

L JONSON: Sven?

K SMITH: Sven Muller and Jan Narlinger were the two sort of guys from Saab whose, I think Sven was based in South Africa and Jan was spending a lot of time out during that period too.

G MURPHY: Okay, so how did the Saab guys interact with what was going on at that time? What was their level commitment, other than the Saab, the Gripen aircraft?

K SMITH: I mean, it was, you know, they were. BAE was the prime contractor on the programme and Saab, because the two aircraft were there and Saab were always concerned that sort of BAE would sort of front with the Hawk you know and the Gripen would be sort of down here somewhere. So I was part of the reassurance process and you can see as the deal progressed I mean when the Gripen was delayed, we actually did something about that or potentially delayed, but they had a team in-country. Part of it was to you know make sure that they were being properly represented frankly, but secondly there was a huge Swedish industrial participation involvement.

L JONSON: In the defence or the -

K SMITH: The NIP.

L JONSON: The NIP.

K SMITH: Yeah, which, the National Industrial Participation which was really coming out of investor group and the companies in South Africa that investor group that had been involved you

know had sort of assets on the ground and sort of Yan did a lot of work to interface with those companies during that period. So there was real work to do on the ground there as well as making sure that the interface back into Saab in Sweden was working effectively. I mean all the technical work on these programmes, there's a huge amount of stuff you know goes on producing specs and what have you. You can't take that to South Africa. You've got to do that back in the home countries. All the design data is digital etc. So making sure that that interface worked well is really what was going on there.

G MURPHY:

Yeah.

L JONSON:

Is it right to say that BAE were responsible for the marketing of the Gripen?

K SMITH:

Yes.

L JONSON:

Okay.

G MURPHY:

Okay, we've mentioned a number of BAE personnel. At this stage, where was Mike Turner? Allan Macdonald was just about, or had just moved out. What was Mike Turner's role at this stage?

K SMITH:

Mike was still doing the job that he'd been given in sort of early 1998. Did he have a CEO title? Can you?

L JONSON:

I don't know. It's too complicated.

G MURPHY:

It is complicated.

K SMITH:

I mean you know what happened was that there was, if I just give you a little bit of the background, then you'll understand why.

G MURPHY:

Sure.

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K SMITH: I know it sounds a bit funny. I'm not trying to be difficult. I mean essentially what happened was that Dick Evans was going to stand down as chief executive and become chairman of the group. They were looking for a new chief executive.

L JONSON: Yeah.

K SMITH: Now there were three internal players John Weston, Mike Turner and Richard Lapthorne were all interested in doing the job and they were external and did a search, okay? I mean Dick sort of came to the conclusion for whatever reason that John would do the chief executive job.

L JONSON: Right.

K SMITH: But he could never sort of face up to the other two properly to Mike Turner and Richard Lapthorne to get it sorted out from an organisational point of view.

L JONSON: Right.

K SMITH: So, you'll see from the organisation charts, I mean, Richard Lapthorne I think was made deputy chairman or vice-chairman and Mike had a job that reported into Dick where he had interface with lots of us within the group and John Weston was over here as sort of the CEO. So it went through a period which was really strange you know from an organisational point of view which was, I mean one of the reasons I was uncomfortable you know within the organisation was, was going to come out. I mean when I sort

of was looked to be appointed in this role, I mean, you know, I talked to John about sort of leaving at that time.

So, it was a strange period from a management point of view. So Mike's specific responsibility at that time, I don't know. I mean I just can't, you know I can't remember really, although he was still doing lots of the stuff that he used to do. So he was still involved in the sort of sales and marketing activity although not a huge amount of time.

G MURPHY: Yeah.

K SMITH: There's the fact that he'd been there for such a long time and he was involved in the commercial aerospace side and particularly the airbus side. What was also happening at that time was the acquisition of GEC.

L JONSON: Hmmmm.

K SMITH: And Mike and Richard Lapthorne was spending a lot of time on that too. So there was a lot going on you know in the group at that point in time and Mike was involved in some way in most of those things although the reporting lines look a bit funny when you look at the organisation.

L JONSON: This sort of sounds like the CEO role becomes almost a toothless role because no one's reporting into the CEO.

K SMITH: Well, we all did. It did feel toothless to me at the time I can promise you. It was not clear.



L JONSON: Right.

K SMITH: You know the clarity there was not great. I mean, you know, Dick always wanted to try and keep everybody happy and on some occasions, it really difficult and that was one of those really difficult occasions. John did have teeth within the organisations and from an operational point of view, I mean, we knew who we worked for etc.

L JONSON: Right.

K SMITH: But the other guys were still around and still involved.

G MURPHY: Yeah.

L JONSON: Okay.

G MURPHY: What about Mike Rouse?

K SMITH: Yeah.

G MURPHY: What was his involvement? Or did he have any involvement in South Africa and the Hawk/Gripen contract?

K SMITH: Not directly, apart from he was managing, he took over from me as managing director in the Military Aircraft Division at that time. So when I moved out of the Military Aircraft Division in 1995 -

G MURPHY: Yes.

K SMITH: - Mike took over as managing director and he was still managing director at this time 1998, 1999.

G MURPHY: Right. So, would he have had any involvement either in, you know commercially or marketing?

K SMITH: He wouldn't have had in the marketing. I mean, he would have had commercially. It was his

responsibility to make sure that, I mean, essentially what I was doing, you know, out in-country negotiating these arrangements, what's going to give us satisfactory return for our business, so -

G MURPHY: Did you report into him at all?

K SMITH: I didn't report to him. I mean I worked with him you know and again, I mean, sort of part of my job was to keep that interface really tight and when you know there were changes to be made and as the negotiation progressed, to make sure that the division was kept absolutely up to speed, to have the ability to comment on what we were going through and influence through the commercial negotiations. So there was stuff going on there but it was very much a sort of contracting -

G MURPHY: Yeah.

K SMITH: - sort of process rather, I mean, the marketing had been done -

G MURPHY: Yes.

K SMITH: - you know by this stage. We were into you know, could we actually get a deal sort of done on paper. So that was really where -

G MURPHY: Yeah.

K SMITH: - Mike was involved from the divisional point of view.

G MURPHY: Right, okay. Good timing.

B SMITHWHITE: This is the end of tape one. The time by my watch is 10.12 and I'm turning off the tape.

(End of Tape)

TRANSCRIPT OF INTERVIEW HELD AT THE SERIOUS FRAUD OFFICE ON  
THURSDAY, 4<sup>TH</sup> OCTOBER, 2007.

CASE REFERENCE RLI02

TAPE 2 OF A BATCH OF 6

PERSON BEING INTERVIEWED: SIR KEVIN SMITH

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MS CAROLINE HALLIDAY	-	SOLICITOR

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B SMITHWHITE: This is the start of tape two of the Section 2 interview with Sir Kevin Smith. The time by my watch is 10.21. Please can you confirm Mr Smith that we have not discussed any matters relating to this case during the interval since the end of the previous tape and the same five people are present?

K SMITH: I can.

B SMITHWHITE: Thank you.

G MURPHY: At the end of the last tape, we'd finished I think quite nicely on who was involved in the negotiations whilst you were taking over or had just taken over from Allan Macdonald.

K SMITH: Yeah.

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G MURPHY: I want to just go back now really to when you actually took over from Allan Macdonald and how that materialised. Was there a period of hand-over because Allan had been doing leading an awful lot of the marketing work and down select had been achieved?

K SMITH: Yeah.

G MURPHY: How did the hand-over, for want of a better word?

K SMITH: To be honest, it wasn't much. I mean -

G MURPHY: Right.

K SMITH: - the sort of circumstances of Allan's leaving was such that there was not much of a hand-over with Allan.

G MURPHY: Right. Did you have any, when you said, 'It wasn't much', what was the extent of the hand-over?

K SMITH: I can't remember. With Allan directly, I can't remember anything in terms of a direct hand-over with him.

G MURPHY: Right, okay. Any reports or anything like that prepared?

K SMITH: No, I mean, what I did was I spent time with Niall Irving who would, sort of, essentially be running the in-country marketing activity. I also spent some time with Richard Charter at that time who had also been you know supporting the team in-country and with the team. I mean, it was really the people that were involved in the programme, sort of got myself up to speed with where we were.

G MURPHY: Right.

K SMITH: I mean, I had some knowledge of it already as I said. You know I had had some sort of oversight of it and on the sort of Saab board, I knew the sort of Gripen side of what had been going on sort of you know pretty well through the involvement there.

G MURPHY: Yeah.

K SMITH: So, I did have knowledge and there were people around to sort of talk to in the team.

G MURPHY: Right. I think you said Allan left around about February, 1999, was it?

K SMITH: Something like that, yeah.

G MURPHY: Somewhere around that time. Did he have a period of sort of, he handed his notice in, was there a period of notice that he worked? Do you know?

K SMITH: I don't believe so. I think he more or less left straight away. I mean, it was, to be honest, after the initial discussion with Allan, I saw very little of him. I mean his sort of severance arrangements were handled by John Weston and sort of Terry Morgan directly. So I mean, the basis on which he actually left the group was sort of handled there.

G MURPHY: Yeah.

K SMITH: And I sort of, sort of filled in the gap really on what was going on in South Africa.

G MURPHY: Right, okay. Right, how did you go about filling in the gap in relation to agents that were involved, employed, for want of a better

word?

K SMITH: I mean to be honest with you, I didn't have, you know, I didn't have much to do. I mean from where we were at that point in time they were who they were and sort of what they were and I didn't have much involvement with them. I mean at that time, we were very much interfacing with a negotiating team who was sort of operating from a South African government with you know a pretty clear route through what needed to be done to secure a contract.

So, I mean, when I'd sort of, when Allan moved out, the expectation was that there would be in February a contract in June. You know, I mean, this was the intensity of the activity -

G MURPHY: Yeah.

K SMITH: - was really in contracting and negotiating and as I say the marketing had essentially been done, so very little.

G MURPHY: So was there no agent involvement in the negotiations that you were involved in, you know, post down select?

K SMITH: No. There was no direct involvement from agents in the negotiation.

G MURPHY: Right.

K SMITH: We did work with Richard Charter. I mean Richard was you know the closest support that we had and -

G MURPHY: Yeah.

K SMITH: - really the history around the deal, but he was not directly involved in the negotiation

process. It was a company negotiation team and it was a straight sort of commercial negotiation activity.

G MURPHY: Yeah. Was there any indirect involvement of the agents? You said they weren't directly involved in the negotiations post down select.

K SMITH: No. I mean there was, at that time, there was little you know as far as I could see that was going on with agents.

G MURPHY: Right. What did you do to appraise yourself of what agents were or had had involvement in South Africa in helping secure the down select ventures?

K SMITH: I mean, I didn't do very much at all. I mean, you know, I mean I'd no need to do. As far as I saw it, you know, I had a sort of pretty sort of clear route to go down. I'd done contract negotiation with over-seas customers before and UK government customers. So, I mean, I knew a little bit about how to negotiate and as far as, I mean, where I was, when they were, where they were, if I needed help, you know, I'd find out and ask for it, but I actually didn't need much. You know, I just sort of had a clear route through what needed to be done through the negotiation activity.

G MURPHY: Right.

L JONSON: Did you know at the time all of the identities of all of the agents?

K SMITH: No, I didn't. I mean, and I didn't know the sort of company's here you know either. I mean,



what I sort of, I knew and sort of had from time to time during that process discussion with one or two folks who were involved but there was nobody directly or indirectly involved in what we were doing through the negotiation process apart from Richard who was supporting us down in South Africa.

G MURPHY: So who was dealing with things like the re-negotiation of agents agreements, renewals, amendments, that type of thing?

K SMITH: In terms, well two elements to it. In terms of the sort of interface with the agents, I mean, there's sort of IMSO organisation I mean the HQ marketing organisation and Niall is the sort of lead marketing guy in South Africa. You'll see from the papers that they had what was known as a referrals committee -

L JONSON: Hmmmm.

G MURPHY: Yeah.

K SMITH: - where all the sort of renewals actually came to that committee you know and were discussed and the sort of I mean the processing in BAE was that agents were on sort of pretty short term leads, I mean, a year at a time.

G MURPHY: Hmmmm.

K SMITH: I mean, there's quite a, what I felt was a strong government's process over that and the referrals committee were the ones that looked at extensions and I think during that period in the papers there were maybe one or two extensions on South African agents which would come to that

committee and as a member of that committee, I would be involved in the discussion around that.

G MURPHY: Right.

L JONSON: But who proposed, because obviously the committee can only work on a proposal -

K SMITH: Yeah.

L JONSON: - from as I understand the way it worked from the R M D?

K SMITH: That's right.

L JONSON: So in the time that you had taken over from Macdonald -

K SMITH: Yeah.

L JONSON: Would you have been responsible for saying this agent, for example, this agent needs to be renewed. I support its renewal. Please consider it.

K SMITH: I wouldn't be involved in that sort of process. I mean the guy who would have responsibility for that would be the guys who run the agreements which would be Hugh Dickinson and the team. I mean, they would know when the renewals were sort of for.

G MURPHY: Yeah.

L JONSON: Sure. Sure.

K SMITH: And they would then go to the sort of guy who was running the region -

L JONSON: Yeah.

K SMITH: - which in this case was Niall -

L JONSON: It was Niall not you?

G MURPHY: Niall was running the region?

K SMITH: Yeah, but I mean you'll see through here there

were a couple of them that I was, I mean, I was asked as a member of the committee and because I was involved in the South African project so I did have some involvement in that process in the renewals.

L JONSON: So would Niall have more of an idea as to who certainly when you were managing director in new business -

K SMITH: Yeah.

L JONSON: - which agents were operating and which weren't?

K SMITH: Yeah.

L JONSON: He would have much more of a first-hand knowledge of that?

K SMITH: He would, I mean, Niall would be you know much more involved in that. I did see a couple of guys who I felt were involved in the process and I also had Richard Charter. So -

L JONSON: Who did you see?

K SMITH: I saw Jules Pelissier -

L JONSON: Right.

K SMITH: - a couple of times which was really sort of updates, sort of background stuff, you know, information sharing type stuff, and I also saw Alex Roberts with Dick a couple of times too through that process.

G MURPHY: With Dick?

K SMITH: Yeah, I mean I used to work with Dick on a sort of number of projects. He was, I mean, he worked for BAE across a range of things with Dick. So I did see Alex who had some involvement in South Africa and I saw Jules

Pelissier on a couple of occasions as well.

L JONSON:

Hmmm.

K SMITH:

Apart from that during that period, the guy that I you know worked reasonably closely with was Richard Charter.

G MURPHY:

Yeah. Now, just to pick up on Richard Charter at the moment, I understand that Richard Charter was chairman or deputy chairman of the British Aerospace South Africa?

K SMITH:

I think so, yeah. I mean, I'm not absolutely sure about the structuring there in South Africa.

G MURPHY:

Okay, what sort of things would you have been discussing with Richard Charter then? How was he getting involved in that?

K SMITH:

Well, really helping me understand how and issues associated with actually sort of putting this deal together. I mean I had no knowledge of this sort of negotiation process in South Africa, how ARMSCOR operated, sort of who the players were, so he helped me understand that. He also helped with, the big issue became affordability on the project.

G MURPHY:

Yes.

K SMITH:

And he helped me understand you know what the issues were associated with affordability and what he also did was help with the suppliers in South Africa. We had defence industrial participation there which was a big job and Richard you know really did help a lot with selecting suppliers, meeting the guys when we

needed help for various things and sort of you know helping and supporting us in approaching them.

G MURPHY: Right.

K SMITH: And you can see in here, there's some stuff about getting price reductions on Hawk etc which he helped a lot in that sort of stuff.

G MURPHY: Okay.

K SMITH: So in terms of the support I got from him, it was a lot about understanding how the processes work in South Africa, the issues associated with affordability and the nuts and bolts of getting the South African industry to support what we needed to do as we run through that negotiation.

G MURPHY: Right. In what capacity was he acting? As an agent? As an employee of British Aerospace or director of British Aerospace South Africa?

K SMITH: Well, I sort of, it was probably a mix. I mean I'm not sure to be honest. I mean, I sort of just felt that Richard was there you know on the team. We used his facilities out in South Africa. He'd been with the team for a long time. I mean I wasn't sure, I didn't know how he was remunerated through that process or how those things worked -

G MURPHY: Right.

K SMITH: But I mean, for me in terms of South Africa and support, he was the sort of main support guy that I would put into the general category of a sort of consultant rather than what I'd, sort of a full-time sort of British Aerospace employee.

G MURPHY: Right.

K SMITH: Because I'm not sure whether he was or not to be honest.

L JONSON: You said you didn't know how he was remunerated. Did you know that he had two separate agreements?

K SMITH: No.

L JONSON: Okay.

K SMITH: I didn't.

G MURPHY: Would the names of the agents companies mean anything to you? Did you ever know names of companies or did you just deal when you did deal with them with individuals?

K SMITH: I mean I dealt with individuals. The names of companies that came up through referrals through that committee -

G MURPHY: Yes.

K SMITH: - I would sort of look at but apart from that, it was just names of individuals and people. I didn't know the sort of names of the companies that they had etc.

G MURPHY: Right, how would you, you said just a moment ago that you would have thought the sort of work Richard Charter was helping you with -

K SMITH: Hmmm.

G MURPHY: - would have been the sort of work that you would have expected of a consultant rather than a British Aerospace employee. How could you differentiate between the two?

K SMITH: That's a good question. I mean, I said it that sort of distinctly. I just did not see Richard

as a British Aerospace employee. I couldn't direct him. I mean, I didn't feel I could direct Richard in terms of what to do, but I did feel he was there as a part of a team to support what it was that we were actually doing and then he'd been there for a long time.

G MURPHY:

Right.

K SMITH:

I mean, you know, if it was Pat Gosden, I could sort of direct him. I always looked at Richard as somebody who would advise and support rather than sort of as an executive you know who we could sort of tell you know exactly what it was that we actually wanted him to do through that process and that's basically how the relationship worked.

G MURPHY:

Yeah. Lydia mentioned just a moment ago that, asked whether you knew Richard Charter had two agreements. Do the terms overt and covert agreements mean anything to you?

K SMITH:

No, overt and?

G MURPHY:

And covert.

K SMITH:

I can't recollect the terms overt and covert agreements.

G MURPHY:

Right.

K SMITH:

Can I just take some water?

G MURPHY:

Sure. Can you think of any reason looking at the work Richard Charter was doing, and we'll stick with Richard Charter -

K SMITH:

Yeah, yeah.

G MURPHY:

- for the moment, any reason, the work that Richard Charter was doing for you should be

dealt with through two different companies? One had an agreement that was overt.

K SMITH: Yeah.

G MURPHY: The other one had an agreement that was covert. One apparently was, help me with the wording on this Lydia, was -

L JONSON: Osprey

G MURPHY: Thank you.

L JONSON: Osprey for aviation which was his overt S.A. Company.

G MURPHY: - Osprey, I knew Osprey.

K SMITH: Yeah, that's where we used to use the offices.

G MURPHY: Osprey that was the face of Richard Charter.

L JONSON: And that banked in South Africa and South African registered company, and the other company, you'll see from the schedule of papers that I've got here for you have received the bulk of the money -

K SMITH: Yeah.

L JONSON: - was a company called Huderfield Enterprises Corporation which was either a BVI or a Bahamanian company but banking off-shore in the Bahamas.

K SMITH: Right.

L JONSON: So, those were the two ways in which Mr Charter got paid.

G MURPHY: Okay, so obviously the overt face of Richard Charter was Osprey.

K SMITH: Yeah.

G MURPHY: And he received relatively speaking a lot less money than he did -



L JONSON: About five or six million.

G MURPHY: - five or six million less than he did through his covert company.

L JONSON: No. Five or six million he received through Osprey. He received 25 million through Huderfield. So -

G MURPHY: Can you think of any reason why such an arrangement would be in place? Do you know of any reason? Could you know of any reason?

K SMITH: I don't know of any reason. I mean, I don't.

G MURPHY: Right, and I'll ask anyway. Were you aware that that was in place, that set-up was in place?

K SMITH: I can't, to be honest here, I can't remember, I mean I certainly don't recognise overt and covert. If Richard had a company Osprey and a consultancy agreement, and I would be surprised at that, but I can't sort of say that I definitively knew that at that time.

G MURPHY: Okay.

K SMITH: You know, to be honest, I mean those weren't the things that interested me. You know I was sort of interested in you know how many Gripens were we going to sell? How many Hawks were we going to have? What was the NIP we were going to deal with? Was it at that phase of the process. I mean, I wasn't into really thinking about that sort of arrangements with people involved at that time.

G MURPHY: Were you ever concerned about the possibly of bribes being paid to South African public officials through the use of agents?

K SMITH: No, I wasn't. I wasn't.

G MURPHY: Did you ever consider it as a possibility?

K SMITH: I didn't sort of consider it overtly as a possibility, no. I mean, I felt that from my involvement which was sort of limited you know in that period within BAE through to sort of 1998 through to when I left the company in 1999. I mean my sense of it was that there was a strongly governed process you know within BAE around sort of consultants and agents. It was audited. I mean it was you know fully sort of legal supported and I mean I did not sort of feel that that was the case and certainly when I was in South Africa during that period during the negotiation phase, I mean, I actually felt it was a negotiation phase you know with a team of officials who were doing the best job that they possibly could on behalf of the South African government. So, no. That did not cross my mind at that time.

L JONSON: Did you ever ask in relation to any of the agents well, before my time, before you got involved -

K SMITH: Yeah.

L JONSON: What did they do? What had they been doing to justify this money?

K SMITH: No.

L JONSON: Okay, because presumably one of the jobs of negotiation at the late stage, when negotiation is used to bring the cost of the package down -

K SMITH: It was.

L JONSON: - so that the South Africans could afford it. You've got this levy from HQ marketing services -

K SMITH: Hmmm.

L JONSON: - of the amount that's being committed over the years to pay various agents involved -

K SMITH: Yeah.

L JONSON: - and what we can see is from 1992 from the very first agreement that we've got with Basil Hersov all the way through to the signing of the contract to the contract becoming effected, we can see that gradually the company has managed to push down the percentage success fees awarded to each agent -

K SMITH: Hmmm.

L JONSON: - and that continued during the time that you -

K SMITH: It did.

L JONSON: - that after Allan Macdonald left and before the signing of the contract.

K SMITH: Yeah.

L JONSON: I suppose my question really is when you were trying, you were trying to save money, at no time did you say, right, hang on, Alex Roberts, he's getting, off the top of my head 2% -

K SMITH: Yeah.

L JONSON: What's his done? Let's see if he has justified his 2% -

K SMITH: Yeah.

L JONSON: Can we squeeze him down?

K SMITH: Yeah. No, I mean, not in the way that I can tell you what I did do, I mean not in the way

that you just said it. I mean essentially what happened was that through the negotiation process as you can see, the Gripen looked like it was going to be delayed.

L JONSON: Right. Why was that?

K SMITH: Well, basically unaffordability. I mean what had happened was that when they actually got all the individual packages, they added them together and they looked at it. The affordability of that package was in question and they didn't think they could do everything at once. So, internally they had a bunch of discussions with the individual services that basically said what is it, you know, Could we delay anything out of this package? The chief of the air force decided that he felt that he could delay the Gripen - Okay- and therefore there was a discussion you know around April time I think that he's seeing him about -

L JONSON: 1999.

K SMITH: - in 1999, yeah, right through. This is right through you know towards the end of the process. There was a discussion at that time about delaying the Gripen. We came up with the idea and along, having said that, along with that the South Africans wanted to keep the benefit of the national industrial participation programme from the Swedes -

L JONSON: Right.

K SMITH: - because I mean this deal only worked in South Africa with the national industrial

participation that was putting the value into the economy so that they could sort of show to everyone that you know they bought this defence package but there was huge value going back into South Africa.

L JONSON: Yeah.

K SMITH: So we came up with the idea of, the Hawk had been selected at that stage and they wanted to take the sort of Hawk, seeing whether we could put an arrangement in place where we actually deferred a part of the Hawk programme. We took a contract which included the totality of the Gripens and the Hawks and that, but the first phase of it, sorry the second phase, the South Africans had the ability to terminate -

L JONSON: Right.

K SMITH: - if it was at no liability okay, which was a really tough thing to try and make work for a number of reasons. So if you look at it, what we did, we took the contract for all the Gripens and all the Hawks and then in two separate dates, I think one in 2001 and 2004, they had to potential to cancel some Gripens and half of the Hawks, was essentially what we did. That was to secure the Gripen into the package -

L JONSON: Right.

K SMITH: - and I felt at that time that if we could get the national industrial participation to work and that that was working well, then there would be no problem in terms of keeping the Gripen and the Hawk going. And what I also understood was

that the real issue in South Africa at that time was actually the liability on the company's, on the country's balance sheet rather than the ability over time to actually pay for the products because they wanted to keep the financing arrangements, through ECGD & EKN. So they wanted to keep everything in place.

L JONSON: Sure.

K SMITH: And we couldn't make that happen. So at that time, we sort of looked to see whether we could find a way to put this what became known as the tranching arrangement in place, to do the first and second tranches. What I didn't know at that time was and one of the issues that we had was around the consultancy agreements. My concern was that if we took a contract for the totality and then half, you know, half of it was cancelled in sort of two, three, four years time -

L JONSON: It's a big bill you face.

K SMITH: - it's a huge bill. So what I did at that time and I think you see it in the papers was basically ask Niall with HQ marketing organisation to go through those agreements, to look at what we could do you know, would they work, sort of basically, and at the same time, you're right, I mean, was there any opportunity to get any cost out. So during that window at that time, there was some work done on that. There was some, and you can see the correspondence there. So I did do that.

What I didn't do, I mean, was to sit down and to go through you know the list individually and look at what they've done. I mean, Niall was I mean the expert. He'd been there sort of longer than me and the guys in the central sort of marketing organisation understood what the agreements were and what sort of flexibility we might have. So that's what we did during that period. Yes, I mean I did have an involvement in that.

L JONSON: Right, okay.

K SMITH: And I think they did come down a little bit through that period -

L JONSON: Yeah, I think -

K SMITH: and the payment arrangements -

G MURPHY: Yeah.

K SMITH: - were sorted out so that we could actually handle that, that tranching arrangement.

G MURPHY: That's what I was going to say. There is a general downward trend over a period of time and you've mentioned Niall Irving. Who was negotiating this downward trend with the agents? Who physically was actually putting the squeeze on?

K SMITH: I don't know to be honest. I mean I know Niall sort of spoke to some of them and my expectation was that Hugh Dickinson and the central marketing team who had you know the sort of contact would be doing the same.

L JONSON: When you say, 'central marketing team', do you mean HQMS?

K SMITH: Yeah, marketing services. Yeah. I mean they handled the agreements and you know -

L JONSON: Right, so, no. It's just, my understanding that they handled the administration of the agreements -

K SMITH: Yeah.

L JONSON: And certainly they would have knowledge of the identity of this advisor -

K SMITH: Yeah.

L JONSON: - because the advisors would attend or send representatives to attend to sign the contracts and they certainly may have some kind of feeling as to whether or not a particular advisor might move, having dealt with him over the years.

K SMITH: Right.

L JONSON: But ultimately, it's got to be proposed by a marketing, a senior marketing person -

K SMITH: Yeah.

L JONSON: EVP R M D within a particular department -

K SMITH: Yeah.

L JONSON: I suppose Gary's question is, I mean, someone on the ground must have been going out to -

K SMITH: Well Niall did that work, I mean he was the guy that sort of went off in a very brief period to look and see what we could do with those agreements and I'm not sure and I think the first job was to look at the agreements and look at from a legal point of view, could we make this tranching work without changing them. I mean, and if we did have to change them to do some work to see whether we could actually get



them changed, and it was, to be honest with you, it was mostly about the liability around the tranching arrangement that we were looking to actually see whether we could get, I mean, agreements to support and that was the big deal, I mean, at that time.

L JONSON: So had there not been this difficulty with the Gripen potentially being delayed -

K SMITH: Yeah.

L JONSON: Would those advisor relationships have, or the levels of commissions have stayed the same from when you took over to work on the contract side?

K SMITH: If the Gripen had gone through straight?

L JONSON: Yeah.

K SMITH: Probably.

L JONSON: Right.

K SMITH: I mean if it had gone through on a straight, you know, the price that they bid and all that sort of stuff, probably.

L JONSON: Right okay.

K SMITH: I mean, if we'd have got into trouble through the negotiation process where the big squeeze was put on and it wasn't about affordability, then we probably would've tried to do the same thing, to see with the advisors -

L JONSON: Okay.

K SMITH: - whether we could get the numbers down again, but it was really, it was not that that was driving me. I mean, what was driving me at that time was this whole issue of the tranching and it's not just with them. It was all the

suppliers. I mean I went to Sweden, sat down with all the Swedish suppliers on the Gripen and explained to them what was going on because they're going to be after run their plans in a way that you could produce nine and then produce another was it 19 or something at some later date without sort of incurring liability. We had to sort of work with the air force to think of a concept of operations with a small number of aeroplanes. So there's a huge lot of activity going on. One little bit of it was, can we make sure that you know these consultants and agency agreements are okay and it was all done in a very sort of confined space, you know. There was very little time during that period and it was driven by that issue.

L JONSON: And the consultants were in the end even though their success fees were reduced, they were still paid on the whole project rather than two tranching parts?

K SMITH: My understanding was that if, and I don't know how the agreements once amended you know actually slip on down. What we were trying to do was to basically say if the Hawk, the second 12 Hawks and the 19 Gripens were terminated, then there would be no liability for those third sort of fees on that part of the contract.

L JONSON: Okay.

K SMITH: And I think that was what we did. I mean that's what we set out to do and I think we did it with the suppliers and everybody else that was

involved in the programme. So we had, the key for us was all about that liability which may arise in circumstances where the additional Hawks and Gripens were terminated. That's what we were trying to fix.

G MURPHY: And who carried out that negotiation with the various agents to look at bringing that, putting that in place?

K SMITH: I mean to be honest with you, I'm not sure how much negotiation was done. The first port of call was the agreements. I mean Niall -

G MURPHY: That's what Niall looked at.

K SMITH: Niall looked at the agreements with the sort of HQ marketing organisation. I don't know how much negotiation was done beyond that, how those agreements stood or what happened, but I do know that we had very little time in that period to go and do lots of negotiation around those agreements.

G MURPHY: Who was it that asked Niall to do that?

K SMITH: That was me.

G MURPHY: That was you.

K SMITH: Yeah.

G MURPHY: So, did you see the fruits of his labour?

K SMITH: I did. I mean in terms of -

G MURPHY: In what format were they, was it presented?

K SMITH: Just discussion. I mean, you know, I mean essentially he went off and did that work. I went off to Sweden and sorted the Swedish vendors out, had sort of meetings with Saab to get them sort of sorted out as well. Then we

brought the whole thing back together and sort of you know looked at where we were at that point in time.

G MURPHY: So Niall never produced a document outlining what he'd found out about the various agents agreements?

K SMITH: I cannot remember going through a document that went through each of the agency agreements and where they were and what had been done. What I did have was, I mean, an understanding from that about where we stood on them and my clear understanding was that whether through sort of negotiation or just the agreements as they were, that we could handle this tranching arrangement and we would not have the liability in those circumstances.

G MURPHY: Yeah.

K SMITH: And there was some discussion on numbers with, and I don't know how many of the agents to be honest with you in the timescale, or how we actually did that, but there was some discussion that again reduce slightly during that period the fees on the Gripen which was I mean the second part of what we tried to do a bit of work on.

G MURPHY: So would it be fair to say then at that time once Niall had done that, that task that you'd asked him to carry out -

K SMITH: Yeah.

G MURPHY: Once he'd reported back to you, you had an overall knowledge of all the agents that were

involved and had agreements?

K SMITH: Not in the detail of which you've sort of laid it out here. I mean the first time I've seen that detail is going through the documents here. I mean I did know as I've mentioned sort of some of the people involved and I'd interfaced with. I cannot remember going through a detailed review at that stage or any other stage of all the agency arrangements. I mean, as far as I was concerned, they were what they were at that stage. I mean, you know, the sort of aircraft had been selected. I was going to go try and negotiate a deal. So I mean what they were, they were, and the only time I really needed to address them was the concern that I had generally about the whole programme on this tranching arrangement and not doing something that created a liability for BAE systems, British Aerospace, I mean, it was a huge, what could have been, you know, and that's what I wanted to take care of.

G MURPHY: Yeah. Yeah. I'd like to go back to the referrals committee.

K SMITH: Yeah.

G MURPHY: Is there anything you want to -

L JONSON: No, I was going to -

G MURPHY: We may come back to that -

L JONSON: Yeah, that's fine.

G MURPHY: I'd like to go back to the referrals committee. When did you actually join that committee?

K SMITH: I believe it was in, when I took over the new,

group managing director new business in 1998.

G MURPHY: 1998. And who else was on that?

K SMITH: It was Mike Turner. There was, and I can't remember who were committee members and who were support to be honest, but the sort of group lawyer was involved. It was Philip Riley.

G MURPHY: Philip Riley.

K SMITH: Hugh Dickinson and the regional sales and marketing directors, the sort of manager, group sales, whatever they called them okay?

G MURPHY: Yeah.

K SMITH: And in circumstances where there were particular sort of countries or areas that were going to be addressed, then generally the marketing guy on the ground would also be involved in that process too.

G MURPHY: Right, okay.

K SMITH: So in the case of South Africa as an example, Allan would be a member. If there was some specific business on in South Africa, then Niall was the guy on the ground would sort of be along there too.

G MURPHY: Right.

L JONSON: What about anyone from finance?

K SMITH: I can't remember.

L JONSON: Okay, that's fine.

G MURPHY: Okay, who chaired that?

K SMITH: Mike Turner, I may have chaired a meeting during that period. I'm not sure, but generally Mike.

G MURPHY: Okay, my understanding of that committee is that if an agent was to be appointed -

K SMITH: Yeah.

G MURPHY: Somebody would propose or sponsor -

K SMITH: Yeah, they would yeah.

G MURPHY: - and the merits of that agent would be discussed and agreed or dismissed.

K SMITH: Yeah.

G MURPHY: But it was also used for renewals and amendments of existing agreements?

K SMITH: Yeah.

G MURPHY: What was discussed at those meetings when you were looking at amending an existing agreement?

K SMITH: Right, I mean, sort of generally it was around the support that the agent had given to that sort of regional marketing guy in his sort of sales and marketing activity on a particular programme. So, I mean and that was basically it. I mean, you know, the guy was asked is he sort of helpful in terms of what he's doing? Is he doing what's expected on the agreement and therefore do you want to continue and renew?

G MURPHY: Right.

K SMITH: And it was that sort of discussion.

L JONSON: Would you call it a detailed discussion?

K SMITH: It wasn't hugely detailed. I mean, these were all over a year. So it was not you know like a full absolute appraisal of sort of what had been going on. I mean, you know, my sense of it was that it was more about if there had been problems, is there an issue here or not, and my sense of it was more that than having to re-justify because I mean you know these guys at

some stage had sort of given a justification. I mean, the agreement had been put in place with a role and expectations about what somebody would sort of do and the annual referral bit, there was in a sense of it, but it wasn't a big sort of in depth review of what had been going on in any particular period.

G MURPHY: And there was also an ex-committee procedure?

K SMITH: There was yeah, yeah.

G MURPHY: How did that differ from the actual convening of the committee?

K SMITH: I mean the committee wasn't out very often. In fact, I mean, I can't remember in the period that I was in there and the files will tell actually attending many at all. Was it quarterly or?

L JONSON: Yeah quarterly.

K SMITH: Yeah, something like that. So, it wasn't sort of held very often.

G MURPHY: Right.

K SMITH: So, if there was business between sort of meetings that needed to be done for whatever reason, then there was an ex-committee arrangement where basically Hugh Dickinson together with the regional sort of marketing organisation would be able to get around the people involved in the committee and if there were changes that were being proposed to discuss them and if everybody agreed, then they would sort of sign up to that change outside the formal committee structure.



G MURPHY: Right, was there a process that you were able to challenge or disagree?

K SMITH: I mean you could always challenge and disagree. I mean that was you know, you could always challenge. I mean, I can't remember it sort of happening to be honest. I never felt you know if I was really uncomfortable about something that I couldn't say so and disagree.

L JONSON: How much information would you be given on an ex-committee referral?

K SMITH: I can't remember what was written.

L JONSON: We've got a couple of other examples which we will come to but -

K SMITH: Yeah, yeah.

L JONSON: Certainly from the documents we've seen, it would simply be an explanation about what the current success fees were and what it was proposed that the new success fees were.

K SMITH: Where, it was the changing fees, yeah.

L JONSON: - or if it was for example, changing fees.

K SMITH: Yeah.

L JONSON: I was just wondering what would the, if you weren't familiar yourself with the territory in question -

K SMITH: Yeah.

L JONSON: What would you do to satisfy yourself that it was an appropriate level of remuneration?

K SMITH: You would take a lot from the guys who were actually involved in the region.

L JONSON: Would they actually approach you physically or would you rely on something simply to ask the

committee to draw on the -

K SMITH: No, I mean I was actually in the department. You know, I mean when I was in that role in the marketing role, I was actually in the same building in the department. So you would actually, sort of, talk to the guys. I mean it wasn't like somebody sends a bit of paper around in the post and people are you know sort of geographically dispersed. You would have or guys would talk to you about what it is that they wanted to do you know and why through that process, but it was not a detail. I mean -

L JONSON: Would that be, would it be documented at all?

K SMITH: Only through whatever it was that was signed by through that ex-committee sort of approval process.

L JONSON: Right okay.

K SMITH: To be honest, I can't remember in detail the sort of document that you would be given etc and how they would actually do that. I do remember a bit about the discussion process outside the region. You'll see a couple in here that have been approved subject to people coming and talking to me which they would do. I mean they would sort of come and have a discussion and that would be it really, but the renewal process you know it was not as I say a real sort of detail review of everything that had gone on with a particular arrangement or a campaign.

L JONSON: Do you ever remember an agent not a consultant not being renewed as having been proposed by the

in country legal team?

K SMITH: Not specifically, not specifically. I mean the minutes of the meetings will tell you that. I mean I can't specifically -

L JONSON: Sure, just off the top of your -, you can't -

K SMITH: Off the top of my head, I can't remember -

L JONSON: Okay.

K SMITH: - an agent sort of not being renewed through that process.

G MURPHY: I was just going to say, it seems to me, you know you were talking about this tranching -

K SMITH: Yeah.

G MURPHY: - issue that you had -

K SMITH: Yeah.

G MURPHY: - and what you asked Niall Irving to do -

K SMITH: Yeah.

G MURPHY: - it seems to me that the referrals committee/ex-committee process that was in place would have been a good opportunity or a good time to actually put the squeeze on various agents to bring commission levels down. Did you ever take that opportunity to do that?

K SMITH: What personally?

G MURPHY: Yeah, within the committee?

K SMITH: No, I mean the level was reviewed and that was one of the things that, I mean, the committee looked at and there was a discussion about sort of whether the remuneration was right or not. I did not personally remember you know going into a position where you took the renewal as an opportunity you know to reduce fees per se. I

mean, -

G MURPHY: Right.

K SMITH: - if a guy, things had changed you know, the programme had changed which often it would. I mean, these sort of defence programmes take a long time and the customer often sort of changes the requirements etc in terms of what they want, there will be changes but I cannot, to be honest, the time that I did attend that committee, I didn't go into it with a mindset that if I get a renewal, I'm going to put the squeeze on the consultant. No, I didn't.

G MURPHY: Okay.

B SMITHWHITE: Okay, this is the end of tape two and the time by my watch is 11.05.

**(End of Tape)**

TRANSCRIPT OF INTERVIEW HELD AT THE SERIOUS FRAUD OFFICE ON  
THURSDAY, 4<sup>TH</sup> OCTOBER, 2007.

CASE REFERENCE RLI02

TAPE 3 OF A BATCH OF 6

PERSON BEING INTERVIEWED: SIR KEVIN SMITH

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MS CAROLINE HALLIDAY	-	SOLICITOR

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B SMITHWHITE: This is the start of tape three of the Section 2  
interview with Sir Kevin Smith and the time by  
my watch is 11.16. Please can you confirm Mr  
Smith that we have not discussed any matters  
relating to this case during the interval since  
the end of the previous tape and the same five  
people are present?

K SMITH: I can.

B SMITHWHITE: Thank you.

G MURPHY: I'd like to move on from the referrals committee  
-

K SMITH: Okay.

G MURPHY: - and look at something or a company called Red  
Diamond Trading.

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K SMITH: Yeah.

G MURPHY: Do you know anything about this company?

K SMITH: I don't.

G MURPHY: Have you ever heard of it before?

K SMITH: I have, I mean to be honest I can't remember when I first heard of it, maybe when I was in BAE. I mean, I've seen it in the documents that you've got here. I've seen it in some of the stuff in the press as well.

G MURPHY: Right.

K SMITH: But I am not, I don't have detailed knowledge about sort of Red Diamond. I mean, I have heard about it, but I don't know any of the -

G MURPHY: I think I know the answer to this question but I'll ask it anyway. Were you ever involved in any of the discussions with BAE employees to set up Red Diamond?

K SMITH: Nope.

L JONSON: Do you know who was involved?

K SMITH: I don't. I mean, I don't know how that stuff was, I mean, my time, I was in the sort of marketing side of the business from March 1998 through to you know when I sort of left just over a year later and I mean the South African time was really sort of focused on doing the deal. I mean, I was on my way out of the group so I didn't have a sort of huge window of involvement in what was going on.

L JONSON: Did you have any contact before 1998, 1999 with Hugh Dickinson and his team? I don't mean socially.

K SMITH: If we were pricing, you know, in the division, then Hugh would give you information around the level of consultancy or advisors fee that you needed to include in the price.

L JONSON: Right.

K SMITH: Apart from that, no.

L JONSON: Right, okay. So the mechanisms by which an agreement was entered into with an advisor or somebody that you would not have been privy to certainly until 1998?

K SMITH: No.

L JONSON: Okay, thank you.

G MURPHY: Did you ever see the BAE copies of the agents' agreements?

K SMITH: I don't believe I did. On South Africa?

G MURPHY: On South Africa, yeah.

K SMITH: I don't believe I did.

G MURPHY: No.

K SMITH: I cannot remember seeing those agreements.

G MURPHY: Right. Do you know where they were kept?

K SMITH: Nope.

L JONSON: Where would you have expected them to be kept?

K SMITH: With Hugh Dickinson.

L JONSON: Okay, did he, did you ever go to his office yourself?

K SMITH: I did, yeah.

L JONSON: Did it have secure, somewhere secure, a safe for example to keep documents? Or was that facility available certainly in the area in which he worked?

K SMITH: I can't remember to be honest. I mean, you go

through, I can't remember, I can't remember.

L JONSON: But how secure in your opinion was the HQMS offices?

K SMITH: Well, I mean, all the offices in that building were all sort of access controlled. I can't remember whether in Hugh's area, there was a separate access control or not. I mean I've got a feeling there might have been but I cannot say to you specifically that that was the case.

L JONSON: Fine.

G MURPHY: His office was where?

K SMITH: His office was down in Farnborough.

G MURPHY: Yeah.

K SMITH: There were, I can't remember the names of the buildings. There was, he was in the building I think were Mike Turner, Dick Evans and that group was.

G MURPHY: Right.

L JONSON: I can probably, if I can jog your memory, HQMS is now called IBS International Business Systems, it would have been after you left.

K SMITH: Right.

L JONSON: They're at Warwick House.

K SMITH: That's it.

G MURPHY: That's where they were, was it?

K SMITH: Yeah, I was in Lancaster House and they were in Warwick yeah.

G MURPHY: Okay. I mean, I've never been to Farnborough.

K SMITH: Right.

G MURPHY: I take it it's a complex is it?

K SMITH: It's a modern facility. I mean, BAE, I don't



know what they have today, but at the time, they had two or three, I mean, sort of modern office buildings and I mean sort of maybe three, four floors, something like that in each.

G MURPHY: Right.

K SMITH: And everything was access controlled.

G MURPHY: How was it access controlled?

K SMITH: All door access. I mean on the doors. I mean some areas, if you didn't have the right access code, you couldn't actually get in to within what was inside the door.

G MURPHY: Was it a keypad or something, was it?

K SMITH: No, it was your card.

G MURPHY: Oh okay.

K SMITH: So, you had a pass -

G MURPHY: Yeah.

K SMITH: - and that pass was programmed to give you access where you could get access to.

G MURPHY: Right.

K SMITH: I mean, you know, you had the chairman, the CEO on the top floor in Warwick House, and the sort of team there. So there were sort of levels of access across the building. I just can't remember -

G MURPHY: Okay.

K SMITH: - what the level of access was around Hugh. But for me I mean everything was access controlled and there was lots of information there. I mean, we're in the defence business, you know?

G MURPHY: Absolutely.

K SMITH: There's security protection. We had sort of

security offices, people on all the entrances and doors, everybody that came in was badged into the building, was escorted wherever you went. So it was that sort of environment.

G MURPHY:

Yeah.

K SMITH:

I mean, and for me I never thought of Hugh's organisation being unusual in that context.

L JONSON:

No, no, no.

K SMITH:

I mean everywhere, and in the technical areas, I mean it was even more difficult unless you were sort of UKI Secret Cleared then you couldn't get into parts of the building. That's the environment down at Farnborough.

G MURPHY:

Right, so very security conscious.

K SMITH:

Yeah.

G MURPHY:

So, if documents you know as you've just suggested were on that premises, it would be a fairly safe bet, they're going to be safe? I mean, away from public's eyes, you know.

K SMITH:

I would think it would be a reasonable bet.

G MURPHY:

Could you think of any reason why documents such as these agents' agreements would be kept anywhere else other than within that safe environment?

K SMITH:

No, not off the top of my head.

G MURPHY:

Did you know that the agents' agreements that we're referring to, South African agreements, were kept out of the jurisdiction, out of the UK, in an office in Geneva?

K SMITH:

I can't specifically say I was, no. It's not something that's in my head, you know. It's not

something that I would have spent a lot of time thinking about, but no, I mean, I can't, I don't believe I did know that the agreements were there.

G MURPHY: In terms of security, do you think they were, would there be any reason not to keep them at Farnborough, but keep them in a separate office in Switzerland, Geneva?

K SMITH: In terms of security?

G MURPHY: If you wanted to keep them safe?

K SMITH: I would have thought you could have protected them at Farnborough.

G MURPHY: Hmm. You never went, I mean, there was an office in Geneva as I've already said to you. Did you ever go to that office at all?

K SMITH: I don't believe I did.

G MURPHY: Okay.

K SMITH: The BAE office in Geneva?

L JONSON: Hmm.

G MURPHY: Yes.

K SMITH: I don't believe I did.

G MURPHY: Okay.

K SMITH: We understand it was set up specifically for the keeping of those agreements.

G MURPHY: Okay.

K SMITH: I do not believe I went there.

L JONSON: Have you ever heard of a company called Novelmight Limited?

K SMITH: No.

L JONSON: Okay.

G MURPHY: Right. Okay. Right, we've covered Red Diamond

for the moment, Geneva. I think what we'll do then is we'll look at maybe in a bit more detail some of the agents that were working on the Hawk Gripen contract -

K SMITH: Okay.

G MURPHY: - but certainly had agreements with BAE for the Hawk Gripen contract. Did you ever come across somebody by the name of Fana Hlongwane?

K SMITH: I did, yeah.

G MURPHY: In, tell us a bit more about that?

K SMITH: Yeah, absolutely. When I'd sort of, well, I first came across him when Allan was still involved in the programme and he actually visited the UK with the Minister for Public Enterprise who was Stella Sigcau and essentially what they were sort of looking at or a part of our sort of pitch into South Africa was that the South African defence industry wanted to be a part of the global defence industry and that BAE could offer that route through a relationship with Denel and Fana was the advisor to Stella Sigcau who was that minister. That's where I first met him and in South Africa I, one of the things that I was trying to do was to actually get that arrangement in place to put a sort of, essentially to acquire a stake in Denel and to bring together a number of companies under a defence umbrella as part of the integration of Denel into the global defence industry. So basically that's what I was looking to do.

G MURPHY: Right.

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K SMITH: Fana at that time was my prime contract, contact in doing that for two reasons. One was that he was the advisor to the minister. Secondly, he was also on the board of Denel and at that time, I spent sort of quite a lot of time in Denel with the CEO of Denel and I mean the management team there talking about British Aerospace, what we did and ideas about how we could actually bring it together and it was with Fana that I actually made proposals as to BAE buying that shareholding in Denel at that time.

L JONSON: Can you remember when this was?

K SMITH: It was in 1999. This is all in 1999. That five, six month period.

L JONSON: Okay, because, and that's the first time you came across -

K SMITH: The first time I came across Fana was at the beginning, I think it was either the end of 1998 or the beginning of 1999 when they visited the UK. I mean I gave them a presentation in London about sort of BAE, the global defence industry.

L JONSON: Was he a public servant at the time?

K SMITH: I think he, I mean I think he was. I think he was -

L JONSON: Because, I'm just a little confused, because I understand that he was special advisor to Joe Modise for a long period. I didn't realise he was a special advisor to Stella Sigeau as well.

K SMITH: I think he was, whether he was formally appointed in that role and again I'm not sure, but my belief is that he was. He was certainly

advisor to Stella and I think at one time he did both and then for some reason he stopped doing to the job for Joe Modise.

L JONSON: Yes, -

K SMITH: And I think was exclusively with Stella and Denel for a while.

L JONSON: Is that not a conflict of interest between Denel, being on the board of Denel and being a public official?

K SMITH: I don't know. I mean South Africa is a crazy place.

L JONSON: Sure.

K SMITH: You know -

L JONSON: But I'm just trying to work out, because obviously, we know that he was a public official -

K SMITH: Yeah.

L JONSON: - and I am trying to understand is when he stopped, physically stopped being a public official.

K SMITH: Okay.

L JONSON: Now I think it was before Mbeki's inauguration at the end of June -

K SMITH: Right.

L JONSON: And it might have been 1998 or it might have been early 1999, but can you help at all?

K SMITH: I think it was early 1999. I think, I mean just remember Denel was actually owned by the, and the department of public enterprises had responsibility for Denel. So you would expect probably that you would have somebody there.

Whether it is, honestly, whether he was employed as a civil servant at that time, I'm not absolutely sure but in 1999, he was certainly in discussion with me about the potential acquisition by BAE of a shareholding in Denel during that sort of April, certainly April, May time and then it stopped. I think there was a change of minister. I think Jeff Radebe came in to become the minister for public enterprises.

G MURPHY:

Right.

K SMITH:

And I had some nominal discussion with Fana on that topic.

L JONSON:

Did you see him again after that?

K SMITH:

I have. I mean I have seen, I haven't seen him for quite some time but I mean like a bunch of these sort of folks I mean you know what it's like. You get quite friendly with them through the negotiation process -

L JONSON:

Sure.

K SMITH:

And so I have seen -

L JONSON:

In the time you were in BAE until I think you said November, December didn't you, when you actually left, any you any more dealings with him then? What I want to know, did he have any, sorry for jumping-

G MURPHY:

No, go on, feel free.

L JONSON:

Did he have any involvement with your team in the negotiation with Jayendra Naidoo?

K SMITH:

No, he did not. You know, we saw Fana around -

L JONSON:

Sure.

K SMITH:

Fana used to come into the hotel where we stayed

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but he had no involvement in the negotiation process. That negotiation was directly with Jay

-

L JONSON:

Sure.

K SMITH:

- and there's no messing about with Jay. I mean, you know he's very straight-forward, very clear.

L JONSON:

Okay.

K SMITH:

And that was fine.

L JONSON:

And what about in, I think you mentioned other teams you had a NIP team and a DIP team. Was he involved in any of that at all?

K SMITH:

I am not aware that he was during that period.

L JONSON:

Do you know who would be able to tell us if he was involved in that? Who was head of your NIP team and your DIP team that would be able to say whether or not he -

K SMITH:

John Macbeath.

L JONSON:

He did both.

K SMITH:

Yeah, he did NIP and DIP for BAE. I mean, Fana was around you know, but he was not involved in that negotiation process, certainly with me. I mean, you know, I had a very clear sort of route into the negotiating committee and it was a straight-forward sort of structured negotiation process.

G MURPHY:

Hmmm. Did he have any relationship with Alex Roberts, Fana?

K SMITH:

I don't know, I really don't. I don't know.

G MURPHY:

Okay, do you know whether Fana actually had an agreement with BAE for the work that he was



carrying out?

L JONSON:

At that time?

K SMITH:

I'm not aware that he did.

L JONSON:

I mean apart from this meeting about and some proposals about the stake in Denel, **did Fana do any work for the Hawk Gripen contract?**

**K SMITH:**

**No**, I just saw a lot of Fana through that period you know and I saw particularly around the Denel activity and I mean he was, he was around basically but he was not involved in you know what we were doing in the negotiation process. I mean, the negotiation as I say was a very straight-forward, a very straight-forward process.

L JONSON:

Sure, okay.

G MURPHY:

Yeah.

L JONSON:

Go to what you want to do then. I'll -

G MURPHY:

I was just going to look at the amounts of money that Fana Hlongwane had actually been paid by BAE.

K SMITH:

Yeah.

G MURPHY:

**Now, he actually started to get paid quite late on.**

K SMITH:

Yeah.

G MURPHY:

I'm just wondering if he was, if he was involved to some extent in the work that you were doing, do you know in what capacity that that was and how he might have been paid for that?

K SMITH:

**I don't think he was involved in the work that I was doing.** Do you mean in?

G MURPHY:

You said **he was advisor to Stella Sigeau** and you

were working on the -

K SMITH: Yeah. I was working on the acquisition of the stake in Denel -

G MURPHY: Yes. Yeah.

K SMITH: - and that was a direct, you know, as far as I was concerned, excuse me, he was operating on behalf of Stella and on the board of Denel so, and I mean I saw a lot of him through that process, you know. It was another one of these things that was sort of quite complex. In that short period, I saw a lot of Fana. I became sort of quite friendly with Fana during that period as I did with Jay Naidoo and a few of the other guys but he was not involved in the negotiation process on the deal.

L JONSON: Was he providing any type of services at that point or any time that you were involved in the deal that were akin to consultancy services?

K SMITH: No. No.

G MURPHY: Do you know if he had any expertise in aerospace, Fana?

K SMITH: Fana has expertise in everything if you listen to Fana, according to Fana. I mean Fana is a larger than life character. He's, he, I mean, my understanding was that he's an advocate, that he was involved with, there was a case that the Americans brought against the South African guys from ARMSCOR including Llew Swan, I think.

L JONSON: After 1990, in about 2001, 2002.

K SMITH: No, there was one earlier than that as well I think and I think Fana was involved in that

programme. He knew, I mean he was involved with the defence ministry so he had some involvement there. I mean he was advisor to Joe Modise for a while -

G MURPHY:

Yeah.

K SMITH:

- and he was on the board of Denel and so, I mean, he -

L JONSON:

But can you think of any reason why he would be paid, I can't give you an exact figure, but well over three, four, five million, well over three million, four million for services provided prior to the signature on that contract?

K SMITH:

No. I can't think of why he would have been provided with that amount of money at that time.

L JONSON:

Can you think of any reason why he was provided with any money at that time?

K SMITH:

What, before the signature on the contract?

L JONSON:

For work done from the period on, let's say late 1998 up to I think 3<sup>rd</sup> December 1999 -

K SMITH:

No. I mean, as I say, Fana was around. I'm not aware about that.

L JONSON:

Okay, I'm going to put a scenario to you.

K SMITH:

Okay.

L JONSON:

We have reason to believe that Arstow Commercial Corporation which is one of Alex Roberts' vehicles, the main one for him, which received I think about 14 million -

K SMITH:

Yeah.

L JONSON:

- paid a substantial amount of its commission fee to a company of which Fana Hlongwane was the beneficiary.

K SMITH: Right.

L JONSON: We also have reason to believe that it was for services conducted within that period of time.

K SMITH: Yeah.

L JONSON: That's one of the reasons I think why Gary asked you if you knew of any relationship between Alex Roberts and Hlongwane.

K SMITH: Right.

L JONSON: Now we also have reason to believe that the reason, we have information that the reason that Hlongwane was remunerated was because he provided some form of consultancy work -

K SMITH: Right.

L JONSON: - under the banner of off-set prior to the signature of the contract -

K SMITH: Okay.

L JONSON: - and that rather than start a new consultancy agreement with him -

K SMITH: Yeah.

L JONSON: - BAE suggested that Arstow be the conduit for a certain amount of funds.

K SMITH: Right.

L JONSON: What is your reaction to that? Do you know anything about that arrangement?

K SMITH: I don't know about that arrangement. I mean, my only sort of feeling about that was in the activity around Denel you know whether there was stuff that Fana was doing during that period to support, I mean he was around, he was talking to us, but I don't know of that arrangement.

L JONSON: Worth over £5 million?

K SMITH: No, I don't know that arrangement.

L JONSON: And for us to make further enquiries, who do you think it would be useful for us to speak to? I think you've mentioned John Macbeath would be able to tell us?

K SMITH: Yeah.

L JONSON: Is there anyone else? Is John Macbeath still at BAE?

K SMITH: I think he is, yeah.

L JONSON: Right, okay.

K SMITH: I think he is. Stuart -

L JONSON: Stuart McIntyre?

K SMITH: Yeah.

L JONSON: What about Niall, would he know?

K SMITH: Yeah, Niall may know.

L JONSON: Right, okay.

K SMITH: Yeah.

L JONSON: Is there anything else on Mr H? When you saw him, I mean, when he was an advisor to, I say he was with Stella Sigeau -

K SMITH: Yeah.

L JONSON: Did you understand that at that point he was a, I may have already asked you this, still a public official?

K SMITH: I believed he was, yeah.

L JONSON: Okay.

K SMITH: I mean to be honest, I've never sort of sat down and, I just thought he was. You know, the first time that I met him was with Stella and as I was dealing through and through those few months, I mean, he was operating for Denel and on the

board of Denel which was owned by public enterprises and he was still was Stella, but whether he was actually on contract and paid, I just don't know.

L JONSON: Sure, do you have any kind of, did you document all the meetings you'd have had with Stella Sigeau where he was present etc, etc? And if so, where would they be located?

K SMITH: They would be in my diary.

L JONSON: In your diary?

K SMITH: Yeah.

L JONSON: But would they also be for example a record of the meeting?

K SMITH: With Fana?

L JONSON: With Fana -

K SMITH: Or with Stella -

L JONSON: Well, any meeting at which he was present. I'm really just trying to see -

K SMITH: Yeah.

L JONSON: I'm trying to really tie down in terms of dates. I mean the diary will help.

K SMITH: Yeah.

L JONSON: But anything that shows the type of conversations you were having over what period and when it started and when it ended.

K SMITH: I mean, all the, possibly in my diary.

L JONSON: Your diary.

K SMITH: Maybe Stella's office would, I mean, formal meetings with Stella and he would be in the records of Stella's office.

L JONSON: She's passed away though, hasn't she?

K SMITH: Yeah, and I also had meetings with the Denel board with Fana.

L JONSON: Right.

K SMITH: And maybe the Denel board sort of meetings would have sort of -

L JONSON: Right. Your diary, sorry, is that electronic or paper?

K SMITH: At that time it would be I think paper.

L JONSON: Right, okay, and is there any, would you, was that, do you have a copy of that or?

K SMITH: I don't, no. It's there; it would be down at Farnborough.

L JONSON: So, that's it from me.

G MURPHY: Brenda, anything on Fana Hlongwane?

B SMITHWHITE: Not at the moment.

G MURPHY: No? Okay. Right. We mentioned Alex Roberts.

K SMITH: Yeah.

G MURPHY: So, shall we pick up on Alex Roberts and I think you said earlier that you did have meetings -

K SMITH: I did.

G MURPHY: - and I think you said Dick might have been there as well.

K SMITH: Yeah.

G MURPHY: Yeah? What can you tell us about Alex Roberts? What's his field of expertise?

K SMITH: I mean Alex, my understanding is that Alex was in the aerospace industry for quite some time. I think he was chairman of Shorts and he had a relationship with Dick that went back sort of quite a long time. So, in terms of Alex, my only experience is really through the

relationship that he had with Dick.

G MURPHY:

Right.

K SMITH:

My exposure to him as been sort of generally, sort of political background sort of type, sort of what's going on, in a sort of particular environment you know in which you're working, that sort of stuff where I've had involvement with him on South Africa, but I also think on Oman too where he was potentially, I think he was doing some work for Dick on that as well.

G MURPHY:

Right. Lydia's mentioned that Alex Roberts worked or his company was a company called Arstow.

K SMITH:

Yeah.

G MURPHY:

Does that name mean anything to you? Had you come across the name?

K SMITH:

No, I mean I saw it in the papers. I can't remember, recollect hearing of Arstow before.

L JONSON:

We think there was a pre-cursor called Primula.

K SMITH:

Again, I saw that in the papers and again I can't sort of recollect that sort of name either.

G MURPHY:

Right. So when you met with Alex Roberts, was, that was in relation to South Africa?

K SMITH:

I met Alex, I think the first time I met him was in relation to Oman.

G MURPHY:

Okay.

K SMITH:

Subsequently, I did sort of meet him in relation to South Africa, yeah.

L JONSON:

Do you remember where?

K SMITH:

I can't remember, no. I mean, I didn't see much

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of him. I didn't see, I mean, I maybe saw him a couple of times in the time that I was involved.

G MURPHY: What that in South Africa?

K SMITH: No.

G MURPHY: Where was that?

K SMITH: I saw him in London with Dick.

G MURPHY: Right, and in what capacity were you meeting him? What was?

K SMITH: General advice on what was going on in South Africa. I mean, there was a lot going on, you know. It's quite a difficult place to understand.

L JONSON: And what type? I mean, can you be a bit more?

K SMITH: It's political stuff. I mean, you know, in terms of sort of the ANC and the background to the ANC, you know, the sort of, some of the in-fighting type issues around ANC, I mean, ministers and ministerial changes, the general sort of budget environment. I mean, it was sort of top level political background, you know budget type issues and that sort of stuff.

L JONSON: And how did he have that expertise?

K SMITH: I just, I mean, to be honest with you, I just thought Alex was one of those guys that you know sort of knew the world. I mean, he'd been in it a long time, you know, spent time in these places, done deals in some of them before himself and he was you know well connected in one way or the other to be able to give you that sort of advice.

G MURPHY: A man sort of who'd come from Shorts of Belfast

-

K SMITH: Yeah.

G MURPHY: - you know, is one environment, and now all of a sudden he's in a political environment giving you know advice on political issues. It seems a bit -

K SMITH: I don't think you get more political than Shorts of Belfast to be honest, but, I mean, my sort of sense of it was that he had done business you know in lots of places around the world and he was an international business man and certainly you know Dick used to take notice of him in terms of the advice that he gave and I mean that was it really.

G MURPHY: At the time of that meeting, were you aware that he was an agent to the Hawk Gripen contract for BAE?

K SMITH: I thought he must have been involved somewhere. I mean I wasn't specifically aware that he had an agreement and what that agreement was but my sense of it was that you know he was involved in the consultancy arrangements around that programme.

G MURPHY: Did Dick brief you at all before that meeting?

K SMITH: I can't remember. I mean, I met him on more than one occasion. I met him you know two or three times, I think, during that period.

L JONSON: And was it for specific meetings or did you happen to be going up and seeing Dick Evans for example or other people and he just happened to be there?

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K SMITH: No, it was meetings around South Africa and I saw him on his own one time too where he visited South Africa and he sort of came back and wanted to chat to me about what was going on down there. So, I mean I did have an interface with him during that period, but it was specifically about South Africa when I saw him.

G MURPHY: The work that he was doing -

K SMITH: Yeah.

G MURPHY: The advice that he was giving -

K SMITH: Yeah.

G MURPHY: Was any of that ever recorded?

K SMITH: I don't know. I really don't know. Do you mean with me?

G MURPHY: Recorded? Was it ever written down anywhere, either with you or?

K SMITH: Not with me, no.

L JONSON: If it had been, do you know where it would be kept?

K SMITH: I'm pretty sure it wasn't. I mean Dick doesn't, he's not somebody who sits and has people taking minutes, you know, when you sort of discuss with him.

L JONSON: Sure. I mean obviously the difficulty we have is that these people are being paid vast amounts of money -

K SMITH: Yeah.

L JONSON: - and we see no evidence in writing as to what services they provided which I can understand for a relatively modest amount -

K SMITH: Yeah.

L JONSON: - or at least if they were, at least, regular meetings at which things were discussed.

K SMITH: Yeah.

L JONSON: - but perhaps for security reasons, it wasn't written down, but -

K SMITH: Yeah.

L JONSON: - we have seen none of that and -

K SMITH: Okay.

L JONSON: - Alex Roberts gets, well Arstow get 14 million?

G MURPHY: 14, almost 15 million.

K SMITH: Yeah.

L JONSON: We're just trying to work out what for? I mean, he had no written reports. Did you ever ask Allan Macdonald for example what he'd done prior to Macdonald leaving?

K SMITH: No, I didn't, I mean I wasn't aware that Alex was involved in that until I actually got properly involved in the South African programme. I mean in the job that I had there was a whole range of things sort of going on. So, no. I don't know, I haven't seen the agreement and what the services were that he was to provide, but I did see him on a number of occasions through that five month period and you know a lot of these guys have been sort of on this programme for a long time.

L JONSON: Sure.

K SMITH: It had been going you know since 1991 or whatever and specifically what people had done through that period, you know, I just don't know. As I said, it was what it was.

G MURPHY: Was there a dossier or something kept of the work or the value that Alex Roberts as an example could apply equally to other agents had historically done in relation to this contract?

K SMITH: I'm not aware that that was the case. I mean, there may be, but I'm just not aware that there is and certainly in that sort of period where I was doing the negotiation I didn't keep a dossier. I mean he was just sort of helping with advice as to what might be going on in South Africa.

L JONSON: So who, someone's got to be presumably responsible for deciding when that contract was signed -

K SMITH: Yeah.

L JONSON: - and therefore those agency agreements become effective or okay certainly by April, 2000, but whether or not the company had got value for money because we're talking about 160 millions worth of commission fees.

K SMITH: Right.

L JONSON: Who, I appreciate it must be a slightly different scenario with Macdonald leaving and you coming in, but who ultimately had responsibility do you think for looking at the agents and deciding whether or not you were over-paying people?

K SMITH: It's got to be RMDs, the regional managing directors in the marketing organisation. I mean, those agreements -

L JONSON: In South Africa, would it have been?

K SMITH: I don't know who would have looked at the South African agreements at that time. I mean, in some respects, you know, the agreements are the agreements and as you say, they'd been sort of chipped away at, you know, over quite a long period of time. So, I'm not sure, you know, at that decision point whether that sort of process that you've just outlined would have been gone through and who would have done it but the only sort of people really capable are the guys who put the agreements in place, the sort of marketing guys.

L JONSON: Who would have been again South Africa?

K SMITH: Well, it would have been Allan -

L JONSON: Right.

K SMITH: Niall, Dick, I mean with -

L JONSON: What involvement did Dick have?

K SMITH: With Alex Roberts.

L JONSON: Right.

K SMITH: I would have expected that, I mean, as I say, you know Alex generally worked with Dick on projects and sort of folks like me just got the benefit of that advice from time to time, you know.

L JONSON: Yeah. Okay. I'm sorry, I'm just trying to work out, it's such a complicated system to work out whose responsible at certain times for various things.

K SMITH: Right.

L JONSON: I think, I think I've got it.

G MURPHY: There was a time when Alex, Alex Roberts or

Arstow received some payments.

K SMITH: Yeah.

G MURPHY: Do you have any knowledge at all about payments that Arstow received, sorry, I'm talking expenses, expense payments now as opposed to the larger commission payments?

K SMITH: Yeah, I mean, I've seen the stuff in here.

G MURPHY: Maybe it's better if I take you to a document. Could you turn to page 102 -

K SMITH: Yeah.

G MURPHY: - in the document pack. Whenever we refer to a document, we have to read out that top, the long number in the top left-hand corner -

K SMITH: Yeah.

G MURPHY: - that's just so that we can identify it at a later stage. So that's docman reference 012452000113.

K SMITH: Yeah.

G MURPHY: This appears to be one of those ex-committee proposals and your name appears as one of the recipients -

K SMITH: Yeah.

G MURPHY: And if you turn over to page 104, 012452000116, you'll see it's proposed to make an immediate one-off payment of £75,000 to Primula Investments. We understand that Primula was the pre-cursor to Arstow.

K SMITH: Yeah.

G MURPHY: And then you can see that that's been approved -

K SMITH: Yeah.

G MURPHY: - and does your signature appear there?

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K SMITH: Yeah.

G MURPHY: Is that the bottom one?

K SMITH: It is yeah.

G MURPHY: Could you tell us what that £75,000 payment was for?

K SMITH: I can't remember. I can't remember what the payment was for.

G MURPHY: Do you remember receiving this ex-committee proposal?

K SMITH: I don't. I don't remember receiving this specifically, no.

G MURPHY: Are you aware of any reason why Alex Roberts or Primula would be receiving up-front payments like this because it's quite unique. No other agent that we've been able to see up until now actually gets anything like this.

K SMITH: Yeah. I don't know. I mean I don't. You know the relationship with Alex was sort of primarily with Dick. I mean I haven't seen Alex' arrangements, his consultancy arrangements and sort of looked at what's in there. I don't know why that payment would have been there being requested. I just can't remember.

G MURPHY: Right. Who do you think we would need to speak to to shed some light on this? Who would have proposed this?

K SMITH: Allan at this time. This is Allan's, 28<sup>th</sup> of September.

G MURPHY: Yeah. Okay, so he would probably be the better person?

K SMITH: I mean Allan, if he can remember, he would be



the better person to talk to on that.

G MURPHY: Go on then.

L JONSON: I'm just wondering, I mean, would you get any more information than these three pages in order for you and the others to make the decision?

K SMITH: I can't remember what we got on this frankly.

L JONSON: I'm just wondering how people come to be able to sign up on something -

K SMITH: Yeah.

L JONSON: - whether or not there is just further information that we either haven't seen or haven't kind of put together.

K SMITH: It would just through the discussion process that I mentioned earlier. I mean if one of the RMDs sort of came forward with this, he would sort of talk to people -

L JONSON: And are all these people based in the same set of offices, Neils Peterson, Philip Riley, Mike Turner?

K SMITH: Yeah, everybody's in the same place, yeah.

L JONSON: Right, okay.

G MURPHY: We can turn over -

L JONSON: Can I just ask, what was Neils Peterson's role?

K SMITH: He was a sort of finance guy in the defence marketing organisation.

L JONSON: That's not HQMS?

K SMITH: It's not HQMS. The defence marketing organisation itself, he had a budget of around sort of £50 million.

L JONSON: Right.

K SMITH: He had offices all over the world and Neils used

to do the finance and administration work for that activity.

L JONSON: What's the relationship between the defence marketing organisation and IMSO?

K SMITH: It's the same thing.

L JONSON: It's the same thing. No, that's fine.

G MURPHY: Can we turn over the page to 105 -

K SMITH: Yeah.

G MURPHY: Docman reference 01245200265.

K SMITH: Yeah.

G MURPHY: Here are some what appear to be more expenses paid to Arstow in February 1999 -

K SMITH: Yeah.

G MURPHY: - for air fares, hotel expenses, etc, etc, and your name appears on the left-hand side just in small print there -

K SMITH: Yeah.

G MURPHY: I don't think, that's not your signature though, is it?

K SMITH: Yeah.

G MURPHY: Oh, that is your signature?

K SMITH: It is, yeah.

G MURPHY: Okay, is that for authorisation?

K SMITH: It will be yeah.

G MURPHY: It that an authorisation signature?

K SMITH: Yeah.

G MURPHY: Again, the same question really. Do you know anything about why Arstow would be receiving expenses?

K SMITH: Only if it was in the terms of his agreement, I mean, this would come forward from Hugh, if it

was within the terms of his agreement, then he would get expenses.

G MURPHY: Right, but we've seen an ex-committee referrals proposal -

K SMITH: Yeah.

G MURPHY: - where they are suggesting up-front payments -

K SMITH: Yeah.

G MURPHY: If it is in the agreement, did you not discuss that at that time, so, what I'm saying is that it is in the agreement, were you not party to that discussion?

K SMITH: On what, I'm not sort of -

L JONSON: There's also the bit about expenses here.

G MURPHY: Yeah, if we go back to page 104 -

K SMITH: Yeah.

G MURPHY: - which is the ex-committee referral document which was sent to you and signed by yourself -

K SMITH: Yeah.

G MURPHY: It's talking about expenses -

K SMITH: Yeah.

G MURPHY: - and over the page you are -

K SMITH: Signing off expenses.

G MURPHY: - signing off expenses.

K SMITH: Yeah.

G MURPHY: What I'm saying is, if it was proposed that he be paid expenses -

K SMITH: Yeah.

G MURPHY: Was that queried by yourself at the time as to why are we paying this guy expenses? Your answer is to why were you authorising and you said if it was in the agreement, you would

authorise it.

K SMITH: Yeah.

L JONSON: Some agents get expenses, some don't -

K SMITH: Yeah.

L JONSON: What Gary is saying is, why, do you remember why you agreed that in particular Alex Roberts should be allowed to claim expenses?

K SMITH: I don't remember.

G MURPHY: You don't remember.

K SMITH: No, I really don't.

G MURPHY: Oh, right.

B SMITHWHITE: This is the end of tape three and the time by my watch is 12 o'clock. I'm turning off the tape.

**(End of Tape)**

TRANSCRIPT OF INTERVIEW HELD AT THE SERIOUS FRAUD OFFICE ON  
THURSDAY, 4<sup>TH</sup> OCTOBER, 2007.

CASE REFERENCE RLI02

TAPE 4 OF A BATCH OF 6

PERSON BEING INTERVIEWED: SIR KEVIN SMITH

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MS CAROLINE HALLIDAY	-	SOLICITOR

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B SMITHWHITE: This is the start of tape four of the Section 2 interview with Sir Kevin Smith. The time by my watch is 13.15 and we have had a break there for lunch. Please can you confirm, Mr Smith, that we have not discussed any matters relating to this case during the interval since the end of the last tape and that the same five people are present?

K SMITH: I can.

B SMITHWHITE: Thank you.

L JONSON: Before the break, we were asking you about some of the agents and I would just like to go back to Mr Charter, who you talked about at the beginning. I think you said that your knowledge

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of him was really through Osprey - that was the company with which he was associated for you in South Africa. What kind of experience did you understand Charter to have to be able to assist BAE in the promotion of the Hawk and the Gripen?

K SMITH:

In terms of the experience that Richard brought, I mean for me it was about the understanding of the South African system and how that works. In terms of the overall campaign for the Hawk and Gripen, again it is a lot about that. If you look at the market and the sales activity, I mean, we're the experts on the aeroplanes. We have good technical people who can interface with the technical communities and the air force. We had, sort of, people who flew them and operated them, so you could, you know, at that level.

What you don't understand is how ARMSCOR works, how the DTI works and what the NIP and DIP process is all about and what it means, some of the personalities involved through that. For me, the most help was actually in understanding the financing in the Ministry of Finance and how that worked and particularly I mentioned to you earlier that our sense was that the affordability issue was really about the obligations on the balance sheet rather than the ability to repay, you know, the loans through the finance arrangement and it was, sort of, Richard who gave us, sort of, help to try to understand that. So it was in those areas where

I got help from Richard and it was very much the overall understanding of how South Africa works and how the procurement process would work and the role of the various departments in that process.

The other area was he knew the South African industry. I mean, he'd been involved in the airline industry, I think, previously in South Africa. So he knew, you know, the folks involved in the South African aerospace industry, the various suppliers etc., which was also, you know, useful when you're looking at defence industrial participation.

So, for me, it was - in my time - it was those things.

L JONSON: Did he provide written reports for the company, for you or for Niall or for anyone like that in terms of, really again, to continue to justify his services?

K SMITH: I don't know.

L JONSON: Do you remember ever seeing any?

K SMITH: Not in the period that I was there, but again, I mean, there was sort of fairly regular contact with Richard through that period and it was, you know, for a fairly short period of time. He may have done, but I don't know.

L JONSON: Was he working full-time, part-time, you know, one, two days a week on the project or did you consider him to be a kind of permanent member of your team?

K SMITH: A lot of time. I wouldn't have said - I'm not

quite sure permanent, but a lot of time on the programme during that period. It was quite intensive as we were going through that sort of final phase and I've mentioned we had, you know, quite a change in terms of the construction of the package. We were trying to agree the sort of final specifications for the aeroplane etc. as we were going through that. So he was spending a lot of time on it. I mean, I wouldn't say full-time, but certainly a lot of his time was dedicated to supporting what we were trying to do on that negotiation phase.

L JONSON: Do you consider that he was involved to the same extent at the end of your time there as he was at the beginning?

K SMITH: That's really quite - I mean, I can't think of any -

L JONSON: Perhaps I can help a little bit. Did you, at any point, make any kind of conscious decision that you were going to use him less or use him more?

K SMITH: Not during the period that I was out there. I can't remember sort of thinking that. As far as I was concerned, whilst I was there, I mean, Richard was there. He'd been with the programme all the way through. He'd been very helpful to me as I'd come in there and I still sort of used him extensively to work with us as we actually went through that period, through to the signature of the MOU in - was it July that we actually signed that document? June or July.



G MURPHY: Can I just pick up on that point? You were talking just now about the written report and you say you can't remember seeing any. Would it be something that you would have expected to have seen - written reports that, you know, justify what it is that he's doing, justify the money that he's being paid? Was it a policy that BAE had that they wanted justification?

K SMITH: I mean, we did have marketing reports from the regions, so Niall, I believe, would produce sort of reports about what is going on in Africa and the progress that he was actually making there. Whether it involved the, sort of, what agents and consultants were doing, to be honest with you, I can't remember, but there were sort of marketing reports that came in for the region through the normal course of business. But I cannot remember seeing in my time, I think, the sort of formal appraisal of activity around the agents and consultants, which I think you're asking about.

G MURPHY: Yes.

K SMITH: I cannot remember seeing that, Gary.

G MURPHY: Is that strange? Is that a strange practice to what you're used to, you know, up until that time in BAE?

K SMITH: I haven't really thought about it in that way, you know. My sort of sense of the agency and consultants' arrangements were there's appointment of, role - understanding and clarity on that. And then there's a sort of

renewal process - and interface process - with the regional marketing guys and, you know, essentially, the prime responsibility for judging how people were operating and whether they were delivering in accordance with what was expected of them was really within those, you know, regional activities.

What I looked at was how were we actually doing in the campaigns. What I was interested in is, you know, have they accepted our product, what are the bid timescales, what are the committee structures in terms of taking the decisions around, whether you move to the next phase or not. That was the reporting that I would be used to in, you know, BAE, as in any other area, I mean. If you went into, you know, the engineering area within the group, I mean, lots of the detail of how the engineering works you wouldn't be interested in, but the critical milestones that you have to deliver in that process you would be reported on and you would review those processes within the group.

G MURPHY: Were you ever aware of an instruction not to write things down?

K SMITH: No. I was not aware of an instruction not to write things down.

G MURPHY: What about aware of an instruction whereby BAE didn't want reports from agents telling them what they were doing? Were you aware of any policy on those lines?

K SMITH: I'm not aware of that, no.

G MURPHY: You've never been involved in any discussions with anybody about that particular issue?

K SMITH: No.

G MURPHY: The reports that Niall Irving did, I think you said, was that a regular report?

K SMITH: There was a regular reporting cycle from the regional marketing guys. I can't remember what that cycle was, but there was a sort of fairly regular reporting cycle.

G MURPHY: Did you know what it was called? Was there a document name or did it take a particular form?

K SMITH: I can't remember, I mean.

G MURPHY: We've not seen anything like that, you see.

K SMITH: Okay.

G MURPHY: And we're just trying to work out why that is - is it because we haven't asked for the right thing? So, I don't know if you can help me with that.

K SMITH: I mean, campaign progress reports and that sort of thing would be -

G MURPHY: Right.

K SMITH: You know, they had a sort of campaign plan, you know, which was a sort of sales and marketing plan and, I mean, there would be reports against those plans. I mean, whether - you're making me think now - whether it was, you know, a specified period for each campaign, or not, I'm not sure.

G MURPHY: Right.

K SMITH: I can't say accurately that that is the case, but there were reports on the progress of

campaigns in the regions.

G MURPHY:

Okay. Thanks.

L JONSON:

You were talking about the ultimate responsibility for whether or not an agent was justified or not was down to the Regional Marketing Director - Managing Director. Now, we know that Allan McDonald was Regional Managing Director until he left but, after that, who did you consider to have responsibility for the agents within South Africa?

K SMITH:

Niall.

L JONSON:

Niall.

K SMITH:

Yes.

L JONSON:

Did he become RMD, then, after -

K SMITH:

No, he didn't. I mean, he sort of moved out of South Africa. I mean, the sort of programme moved real quickly into implementation and Niall, I think, maybe moved to India. I mean, he came out, you know, very quickly, I think, I mean I -

L JONSON:

When would that have been?

K SMITH:

I think it was almost - it was quite quickly at the end. I can't be certain when it was.

L JONSON:

In 1999, 2000?

K SMITH:

I'm not certain. I mean, I would probably say 2000.

L JONSON:

After the contract was signed.

K SMITH:

I can't be absolutely certain about that but my sense would be probably after that.

L JONSON:

Okay. I mean, Richard Charter was paid in total over £30 million for what he did. From your

contact with him and from the many conversations you had with your - with McDonald - do you consider that those payments represented value for money for his contribution to the campaign?

K SMITH: I saw Richard's contribution in five months. I mean, I think the sort of contribution to the campaign for Richard was over nine or 10 years, up until such point as the contract was signed. And then there's the implementation period that he would be involved in that goes on for another 11, 12, 13 years. I mean, I just can't sort of comment on that point. I have not spent enough time or been as closely involved enough to be able to make a judgement on that.

L JONSON: Did you have any conversations with anybody in the campaign team about what he had contributed this far when you first joined?

K SMITH: No. I mean, I sort of had conversations about, you know, the involvement of Richard generally and his position, you know, what sort of things he'd been doing, but I had not done the sort of review over the life of the campaign as to, you know, what Richard's involvement had been and how he'd lived up to the expectations through that period.

L JONSON: Right.

K SMITH: For me, the arrangements were the arrangements. I just wanted to see whether we could turn, you know, selection into a contract. I mean, that was my sort of real focus of attention.

L JONSON: Okay.. Mr Charter's Osprey agreement was

renewed on, well, there was an ex committee application - I think it's at page 90 - which is DocMan reference 012452000117. This is a document headed 'In Strict Confidence' from Hugh Dickinson to Mike Turner, Kevin Smith, Allan McDonald and Philip Riley. Can I just confirm, why were both you and Mr McDonald copied into this type of ex committee referral?

K SMITH: Because I was essentially Allan's boss, so in the sort of hierarchy within the organisation, I would be involved in that.

L JONSON: Right. Okay.

K SMITH: And I was a member of the Committee.

L JONSON: Were you a voting member of the Committee?

K SMITH: I believe so, yes. I believe so.

L JONSON: Does that - sorry, I mean -

K SMITH: I'm not sure what a voting member is. I mean, I think everybody was a voting member, really.

L JONSON: Was Hugh Dickinson a voting member?

K SMITH: Probably not.

L JONSON: Right. So, is that so that you sat on every referrals committee irrespective of whatever territory was being considered?

K SMITH: I would do, yes. I mean, during that period I don't know how many referrals committees there were during that period. Not many. But it would cover more than South Africa, yes.

L JONSON: And would you have been there in your role as Managing Director New Business or as a quasi RMD in McDonald's absence.

K SMITH: No. As Managing Director New Business. I think

I joined the Committee when I came into that new business role.

L JONSON: Right. Okay.

G MURPHY: Did the RMDs have a vote at those meetings?

K SMITH: Gary, to be honest with you, I can't remember a sort of voting process. I'm sure - I mean, it was a 'do we all agree?' type process and if anybody doesn't, then you -

L JONSON: Did anyone ever agree?

K SMITH: To be honest, I attended so few of them during my period there. I can't remember. I mean, the minutes will tell you. Did they tell you?

L JONSON: No.

K SMITH: Okay. Maybe they won't tell you, then. I really can't remember having a - I certainly can't remember, you know, a real dispute during the period that I was there at that Committee. Did people agree with everything and were things changed? I think probably, but I can't remember, you know, a real, sort of substantive issue that people fell out about whilst I was around that committee.

L JONSON: When Allan McDonald left and South African agents were being renewed, would Niall Irving then become involved in proposing the changes or were you doing that?

K SMITH: No, they would come from - I mean, they would come from Niall and Hugh, but I would be involved. Because I was involved in South Africa, I mean, people would look to me to basically say in your opinion is this something

that we should be reviewing? So I was, you know, involved in that process of renewals and although, you know, I wasn't aware of the detail of the agreements and I didn't bring those proposals forward, because I was involved in South Africa at that time, I was expected to express a view.

L JONSON:

Right. Okay.

G MURPHY:

Just one point on the document that Lydia took us to a moment ago - 90. I think - correct me if I'm wrong, Lydia - this is for a reduction in fee for the Gripen. Am I right? Page 90.

L JONSON:

This is a renewal for Osprey.

G MURPHY:

It's a renewal for Osprey.

L JONSON:

There is certainly a reduction of the fee for the Gripen. Maybe page 94 is the one you want to look at.

G MURPHY:

Thank you. Yes. Sorry, page 94, second entry down. It says, 'N Irving advises red fee on Gripen' - so, reduction of fee on Gripen - 'from 1.75 to 0.75.'

L JONSON:

It's Huderfield, by the way.

G MURPHY:

I'm sorry. Forget what I've said.

L JONSON:

Is that right?

G MURPHY:

Yes.

L JONSON:

I've just realised it was the wrong one.

G MURPHY:

Yes.

L JONSON:

But we can deal with that. I mean, again, Gary, carry on and just use it as Huderfield because we're going to move on to it.

G MURPHY:

Okay. So, he carries on to say he's trying to



negotiate down on the upfront - Charter - which is to add...

L JONSON: One-eighth, I think.

G MURPHY: One-eighth percent from Osprey to his agreement. But the bit I'm interested in there is the negotiation of the 1.75 down to 0.75. Did you have any involvement in that, at all?

K SMITH: That was the process that I spoke about earlier where we got to the tranching arrangement and we were looking at the agreements. There were some of the consultants there where we did take the opportunity to try and negotiate them down. I asked Niall to do that. The specific discussions on which ones he was going to talk to, I mean, I'm not aware of and I was not involved in, but as a result of it, there was a small reduction in the Gripen fee which I think you see in the papers.

G MURPHY: Yes.

K SMITH: So, it was that point in time when that was going on.

G MURPHY: Yes. So, to be involved in the negotiation of that fee downwards, would it be fair to say that you would need to have some idea of what the company had done for BAE in the past?

K SMITH: Yes.

G MURPHY: The point I'm getting at here, then, is what was your level of knowledge when it comes to Huderfield and Osprey and their previous work for BAE? Because, if you are going to negotiate it down...

K SMITH: I didn't negotiate it down. I mean, what - I'll sort of try again. Where we got to, we had got into an arrangement where, on the Gripen, we were looking at putting in place this tranching arrangement. Okay?

G MURPHY: Yes.

K SMITH: And, also, the Gripen price was under pressure. I asked Niall essentially to do two things. One was to look at the agreements in the context of that tranching arrangement to make sure we had no obligations if the South Africans decided not to go ahead with the sort of second lot - you know, the 19 and nine - whatever it was. And if we could - if there were areas where we could reduce the fees - to look at doing it and that's where he went off to try and do it.

G MURPHY: But you didn't take part in negotiations, at all.

K SMITH: No, I didn't.

G MURPHY: Okay. I misunderstood that.

L JONSON: Did you give him free rein to decide which agents to put pressure on?

K SMITH: I did. I mean, Niall knew the people. He knew what had been done. What I was trying to do was to get the Swedish vendors down and, you know, look at what we could sort of do to get some costs out of the aeroplane. So, I mean, broadly, yes, I did.

L JONSON: Staying with Huderfield, can you remind me again exactly when you left? Did you say November or December?

K SMITH: I left in November.

L JONSON: Right.

K SMITH: I resigned in May and I left in November.

L JONSON: How much time were you in South Africa leading up to the - in the final weeks before you left?

K SMITH: Not a huge amount. I mean, the final weeks I was, I mean, I was just bidding time, really. I mean, the contract negotiation team were out. The big thing for me was to secure the MOU document, which was where having done that, it went over to the detailed negotiation team.

L JONSON: Can you just explain very briefly what the MOU signified because obviously we've got downselect in our minds when we've got the contract signature and then the effective date. So, I know obviously the MOU goes between down select and the contract signature.

K SMITH: Yes.

L JONSON: What was the purpose of it, as far as you were concerned?

K SMITH: The purpose of the MOU was the agreement of the principal terms and conditions which would feature in the contract that would flow should the cabinet approve that deal. So, fundamentally, it was the deal. Okay?

L JONSON: Right.

K SMITH: So, it had, you know, the aircraft, the prices, the specs, the payment plans the NIP commitment, the DIP commitment. It was, I mean, you know, the deal. What happened after that, once cabinet had approved that - I can't remember how

much time -

L JONSON:

April 2000, the cabinet approved it.

K SMITH:

No, the MOU. The - I can't remember. I mean, if you remember in the MOU document, it gives them two options. One is just to go ahead with the Hawk, as they'd originally said, and the second was to put this tranching arrangement in place for the Gripen and the Hawk.

L JONSON:

Right.

K SMITH:

I'm not sure how long it took after the signature of that MOU document for the cabinet to decide which one of those two proposals they actually wanted to take forward to contract. But the, I mean, the heart of it, you know, the real terms and conditions on which this deal would be done were enshrined in that MOU.

L JONSON:

Right. Okay. We haven't got the page with the date on but I think it is July.

K SMITH:

I think it is July some time. Really, after that, I mean, I don't know how much time I spent in South Africa after that. But that was the big thing for me.

G MURPHY:

'Record of understanding negotiated and signed. Hawk. July 1999.'

K SMITH:

Yes. So, after it was sort of oversight over the guys who were doing the detailed terms and conditions. Actually, I'm not sure really how much time I spent after July, but not much. I was sort of...

L JONSON:

How much more would Richard Charter be doing after the - I think they call it an ROU now.

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K SMITH: Yes.

L JONSON: How much more work would he be doing at that point?

K SMITH: What? Just over that period of the contract signature?

L JONSON: Yes.

K SMITH: I don't know.

L JONSON: What about from contract signature to Government approval. Because in - what happened was in April 2000, the Government decided that - or Parliament decided - that, in terms of priorities, money would be made available first to the British for the planes and then the German and Spanish and Italians. So there were there different phases, I'd say, pre-down select, pre-contract and the pre-effectiveness of contract. So, I suppose my first question is, what would Charter be doing between the signature of the ROU and the signature of the contract in December and then what would he be doing between December and April, if you can answer that?

K SMITH: I don't know December to April. I mean BAE brought a new team in - an implementation team - into South Africa at that stage and it moved very quickly, you know, from the negotiation phase to implementation. The main thing for Richard's support through the - two things for Richard's support through that phase - I mean, that short period - was that, if you remember from the documents, we had come up with an idea

around what a good way would be to split this package up. Nine two-seat Gripens and 12 Hawks. In South Africa, there was no statement of operations from the air force that actually matched with nine Gripens and 12 Hawks and if you see from the documentation, there was discussion between the air force, the Department of Defence, BAE around that particular issue and Richard would be involved in that.

L JONSON: What kind of period is that? Is that -

K SMITH: That's between signature of the ROU and the contract.

L JONSON: Right. Okay.

K SMITH: The other thing during that period was we had, I think - I can't remember whether it was before or after, to be quite honest - but we had discussions around the payment plan arrangements with ARMSCOR and the Department of Defence because they had a budget that was spread through time and trying to match, you know, our sort of spend requirements with the payments that were available was another part of what was going on. Apart from that, I don't know what else he would be doing during that period. And after that, I mean, he would go over to the guys in the implementation team. I think there was a guy appointed to go into South Africa to -

L JONSON: Do you know who that was?

K SMITH: I can't remember.

L JONSON: Well, if you think about it, can you let us -

K SMITH: Yes. It was after my time.

L JONSON: I'll let you think about it and then you can come back to us. But can you think of any reason why Charter would need any upfront payment by BAE between the ROU being signed and the contract being signed?

K SMITH: Between the ROU and the contract. No.

L JONSON: Because, you may have seen from the documents that we sent through - I think it is page 96 to 99.

K SMITH: Yes.

L JONSON: So, DocMan 009582000222 and it's an ex committee referral from Dickinson to Turner - I think that's Jim McDowall, isn't it?

K SMITH: Yes.

L JONSON: What's his role?

K SMITH: I don't know. Maybe he - had he taken over from Allan?

L JONSON: I don't know.

K SMITH: I don't know either.

L JONSON: Right.

K SMITH: I mean, he's an RMD in sales and marketing, so he was the equivalent of Allan in the marketing organisation.

L JONSON: Okay. Philip Riley, Neils Petersen and a Miss H J Turner. Do you know her origins?

K SMITH: Finance, down at Farnborough in the head office.

L JONSON: Right. And it's a request for an upfront payment to Huderfield - so, Richard Charter's covert vehicle -

K SMITH: Yes.

L JONSON: For £4 million, immediately following signature

of the South African procurement package between BAE and the Government of South Africa. This will be deducted from the payment schedule for both products on a 100% basis until fully recovered, payments to be pre-paid until 2000. The above sum will be repaid to the company if the contract does not become effective by 1<sup>st</sup> May 2000.

Now, having seen that proposal and the wording used, I mean, firstly, were you involved at all in the proposal to allow Richard Charter this upfront payment?

K SMITH: I don't think so. I cannot remember being involved in that.

L JONSON: You don't remember any conversations with Charter himself asking for the money?

K SMITH: No.

L JONSON: Niall Irving saying anything to you?

K SMITH: I can't remember that happening, no.

L JONSON: Having seen that - and, Gary, I think you can probably confirm the date - Charter got paid the full amount something like two or three days after -

G MURPHY: It was 7<sup>th</sup> December.

L JONSON: 7<sup>th</sup> December, and the contract as signed on the 3<sup>rd</sup>?

G MURPHY: Okay. The contract was signed on the 3<sup>rd</sup>. Okay. The amendment to the Huderfield agreement for that \$4 million was on 2<sup>nd</sup> December, it was actually made.

L JONSON: So, it was signed, the amount, the formal



agreement was signed on the 2<sup>nd</sup>. The day later

-

- G MURPHY: The day later, the contract was signed.
- L JONSON: With South Africa.
- G MURPHY: And four days later, on 7<sup>th</sup> December, \$4 million was paid.
- K SMITH: Right.
- L JONSON: Can you think of any legitimate reason why Charter, out of all the agents, should be entitled to an upfront payment at this particular time and what it would be for?
- K SMITH: No. I mean, the - no. I mean, he's - my only sort of thought would be that he'd been working on that programme for a long time and, but, I mean, any circumstances during that period that would require that, I'm not aware of.
- L JONSON: Do you think there's any significance about the last sentence in the paragraph that I read out on page 99 that "the above sum will be repaid to the company if the contract does not become effective by 1<sup>st</sup> May 2000?"
- K SMITH: Not that I'm aware of.
- L JONSON: Can you think of why the company would put that clause in, that the 4 million would have to be returned if Parliament hadn't signed off?
- K SMITH: No.
- L JONSON: Does it raise any particular suspicions in your mind?
- K SMITH: I mean, I wonder why. I mean, I know you wonder why too. So, but beyond that, I just don't know. I mean, I don't know the circumstances

behind this.

L JONSON: Well, I won't ask you any more.

K SMITH: Okay.

L JONSON: Is that it for Huderfield? Oh - we've dealt with that, haven't we?

G MURPHY: Yes. I'd just like to pick up on Richard Charter as a person, really. What were his working practices? Did you ever have reason to doubt any of his working practices?

K SMITH: Do you mean his integrity?

G MURPHY: His integrity.

K SMITH: Not in the time that I was there sort of doing what I was doing.

L JONSON: What about afterwards?

K SMITH: I've never seen Richard.

L JONSON: What about before?

K SMITH: I've never seen him before. You know, I mean, I think I'd seen Richard maybe once or twice in the period before I became involved in this project. So, no, I had nothing that would sort of indicate to me that there was a problem with Richard in terms of his behaviour.

L JONSON: Did he ever talk to you about the amount of money he should be being paid?

K SMITH: No.

L JONSON: Ever raise any irritations or concerns that he felt he wasn't being properly remunerated?

K SMITH: No.

L JONSON: Anything else on Huderfield?

G MURPHY: No.

L JONSON: Next up?

G MURPHY: FTNSA.

B SMITHWHITE: FTNSA was the vehicle used by Basil Hersov and Richard Friedman in South Africa. What do you know about, first of all, FTNSA? Have you heard that before, apart from when you got these papers?

K SMITH: I don't - give me the names again.

B SMITHWHITE: Basil Hersov.

K SMITH: I've heard of Basil Hersov.

B SMITHWHITE: Richard Friedman.

K SMITH: I've never heard of Richard Friedman.

B SMITHWHITE: And FTNSA.

K SMITH: FTNSA - I've seen the document here and I've seen the note to the referral in the middle of 1999.

B SMITHWHITE: When you took over the job in 1999, did anybody explain to you about Mr Hersov?

K SMITH: No.

B SMITHWHITE: He was never mentioned?

K SMITH: I mean, I don't - I've heard of him but, I mean, I cannot remember having a conversation about, you know, who he was, what he did, you know, what his involvement had been. And the other guy, I haven't heard of at all, as far as I can recollect.

B SMITHWHITE: Who mentioned Mr Hersov to you?

K SMITH: I don't know. I can't remember.

B SMITHWHITE: Were you aware that Mr Hersov was an agent for the contract?

K SMITH: I cannot specifically remember. I mean, I can't say that I wasn't, but I can't tell you, you

know, specifically I was aware.

B SMITHWHITE: We understand that the percentage fees for FTNSA were reduced from 0.5% to 0.25% for the Gripen.

K SMITH: Right.

B SMITHWHITE: Were you aware of that happening?

K SMITH: Well, if that was a part of the work that Niall was doing at that time, then, I mean, it wouldn't surprise me that that happened.

B SMITHWHITE: Did you ever meet Mr Hersov?

K SMITH: I can't remember ever meeting him, no.

B SMITHWHITE: You have seen from page 85, which doesn't have a DocMan reference, but it's a schedule of payments from BAE to FTNSA. They come to just over £5 million and it has a code of SOU10.

K SMITH: Yes.

B SMITHWHITE: Does this surprise you in any way that FTNSA representing Hersov and Friedman were paid £5 million in relation to the contract?

K SMITH: It doesn't surprise me. I mean, as I've said, the arrangement, as far as I was concerned, in sort of March 1999, the arrangements were the arrangements and, I mean, I hadn't sort of gone into detail, so, I mean, if that's what it is, then that's what it is.

G MURPHY: But can you remember him doing any work in relation to the Hawk/Gripen contract whilst you were in your position there?

K SMITH: In that period, I can't.

G MURPHY: You can't remember.

K SMITH: No. I mean, the sort of people that I've mentioned are the ones that I did see during

that period. I cannot remember seeing Basil Hersov or the other guy during that period.

G MURPHY: Okay.

B SMITHWHITE: Who would be able to help us finding out what work he did, if any?

K SMITH: Niall, probably.

B SMITHWHITE: And if I could just throw in two names, both BAE employees - Robbie Roberts.

K SMITH: Yes.

B SMITHWHITE: What does he do?

K SMITH: Robbie was the marketing guy in South Africa, I think before Niall. So, Robbie may well know.

B SMITHWHITE: Right.

K SMITH: And Allan McDonald may also know what he did. But he was not sort of current in what I was doing through that negotiation process.

L JONSON: Do you know where Robbie Roberts is?

K SMITH: I've no idea, no. I haven't seen him for years and years.

L JONSON: Is he still alive?

K SMITH: I don't know.

L JONSON: Right. Okay.

B SMITHWHITE: Do you know when Robbie Roberts left?

K SMITH: I don't.

B SMITHWHITE: Was it before your time there?

K SMITH: Yes. Well, I know Robbie from when I was in the Military Aircraft Division, so he was there in the sort of 1993/94 time. I mean, where he was, how long he stayed after that, I've got no idea.

B SMITHWHITE: And the other name I wanted to mention was Jerry Wooding.

K SMITH: I know Jerry Wooding, yes.

B SMITHWHITE: What was his role?

K SMITH: Jerry was another RMD. Whether he ever had responsibility for South Africa or not, I'm not sure. So Jerry was the equivalent of Allan McDonald, but he had another region. I think he was the Middle East, was where his responsibilities were. He may have had responsibility for South Africa at some stage, but a long time ago. Jerry is still around. He's retired and, I think, has a consultancy of his own.

B SMITHWHITE: Is there anything else on FTNSA?

L JONSON: Yes. I would like to ask something, if that's okay. Oh, we're both -

G MURPHY: The same document.

L JONSON: Gary, you go.

G MURPHY: Okay. Go to your document pack. Page 86.

K SMITH: Yes.

G MURPHY: You'll see there - I'm sorry, that's DocMan number 009915000046. You'll see that page are the minutes of the referrals committee meeting, held on 31<sup>st</sup> March 1999.

K SMITH: Yes.

G MURPHY: And, item D is in relation to South Africa and FTNSA Consulting Limited.

K SMITH: Yes.

G MURPHY: Now, it doesn't say ex committee - ex-referral -

L JONSON: That's normal referrals committee.

G MURPHY: It would be normal referrals committee meeting. Would that be right?

K SMITH: It certainly looks like that, yes.

G MURPHY: Okay. And obviously, underneath there, it says, 'renewal of the consultancy agreement, expiring 10-6-99 was approved, subject to Mr Smith's agreement'. Is that Mr Smith you?

K SMITH: Probably. Yes.

G MURPHY: Were there any other Mr Smiths around - just to try to clear that point up?

K SMITH: They were other Mr Smiths around, but this one is probably me.

G MURPHY: Okay. Did you give your agreement?

K SMITH: I would guess I did. I mean, I can't remember specifically doing it, but if the - and I can't remember a discussion around it, to be honest, but that does not mean to say that I didn't have a discussion and that it wasn't renewed.

G MURPHY: Yes. So, I mean, my next question was how could you satisfy yourself that FTNSA needed to be - that agreement needed to be renewed?

K SMITH: Only through talking to the regional marketing guys in the same way that you would on the other agreements.

G MURPHY: Right. But you can't remember -

K SMITH: Specifically, I mean, there's a bunch of - you know, these things come up. I mean, as I've mentioned, they were renewed every year - the agents - so there's always consultancy and agency agreements coming up and you do rely very heavily on the regional marketing guys to actually confirm that they're operating in accordance with expectations. I mean, you

can't, it's very difficult to sort of second guess. And in, sort of, March 1999, you know, I was, sort of, three or four weeks into, sort of, looking at the South African programme.

G MURPHY: Okay. Anything else?

L JONSON: No.

B SMITHWHITE: Can I just ask where is Brewers Green?

K SMITH: It's in London. That was - BAE had an office in London, just off Buckingham Gate and that was the name of the office there. I don't think they have it today, but it was the London office at that time before they had the place that they have now off Pall Mall.

L JONSON: I'd like to ask some questions about a company called Kayswell Services Limited.

K SMITH: Yes.

L JONSON: Had you heard of that name before we sent you that document pack?

K SMITH: I can't remember having heard of it, no.

L JONSON: Kayswell is the vehicle used by a name that you mentioned earlier, Jules Pelissier and John Bredenkamp. If I deal with Mr Bredenkamp first, what is your knowledge of Mr Bredenkamp?

K SMITH: Very limited. I've seen John Bredenkamp once, which was probably about 13 years ago in a meeting when I was actually in the Military Aircraft Division on South Africa. That's the only time.

L JONSON: Right. Why was he there?

K SMITH: Because he was involved in the South African programme. I think at that time, we'd Robbie



Roberts and, again, it was - I can't remember the detail of the meeting - but it was, I mean that's the only time I've sort of come across him, although I have heard his name.

L JONSON: Do you know what his experience is in promoting the sales of aircraft?

K SMITH: I don't. I don't know his background.

L JONSON: Do you know whether or not he was involved in any other African deals for BAE?

K SMITH: Not specifically.

L JONSON: Zimbabwe, for example.

K SMITH: I don't know specifically that he was involved in the Zimbabwe deal.

L JONSON: Okay. When you say 'specifically', do you mean you can't -

K SMITH: Well, I've just heard his name. I mean, I wasn't involved in the, you know, the process at that time. I mean, my sort of period in this process is this sort of window. I have heard his name. I can't, you know, I don't know that he was involved in any other contracts around sort of the African continent.

L JONSON: I'll stop the tape there.

B SMITHWHITE: Okay. This is the end of tape four. The time by my watch is 13.59.

**(End of Tape)**

TRANSCRIPT OF INTERVIEW HELD AT THE SERIOUS FRAUD OFFICE ON  
THURSDAY, 4<sup>TH</sup> OCTOBER, 2007.

CASE REFERENCE RLI02

TAPE 5 OF A BATCH OF 6

PERSON BEING INTERVIEWED: SIR KEVIN SMITH

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MS CAROLINE HALLIDAY	-	SOLICITOR

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B SMITHWHITE: This is the start of tape five of the  
Section 2 interview with Sir Kevin Smith. The  
time by my watch is 14.03. Please can you  
confirm, Mr Smith, that we have not discussed  
any matters relating to this case during the  
interval since the end of the last tape, and  
that the same five people are present?

K SMITH: I can.

L JONSON: Thank you. At the last tape, Mr Smith, we were  
talking about Mr Bredenkamp and Mr Pelissier.  
What did you understand  
their business relationship to be?

K SMITH: I, I mean I, I'd only been, in the period that I  
was, sort of, involved I'd only met Jules and

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I'd, sort of, met him on, sort of, a few occasions in South Africa.

G MURPHY: Right.

K SMITH: And I believed he was one of the consultants that had been working with BAE on the South African programme.

L JONSON: Did you realise at that point that he was linked to John Bredenkamp?

K SMITH: I didn't, no.

L JONSON: Right, okay. Did you meet anybody called Trevor Wilmans?

K SMITH: I did meet Trevor Wilmans. He came with Jules to, I mean, a couple of the meetings that we had. So I did meet Trevor Wilmans, yeah.

L JONSON: And what relationship did you understand him to have with Jules?

K SMITH: I, I didn't, I mean, specifically I just thought they worked together.

L JONSON: Right.

K SMITH: I mean, I never, sort of, explored the nature of that relationship.

L JONSON: What about a guy called Rick Passaportis?

K SMITH: No.

L JONSON: Walter Hailwax?

K SMITH: No.

L JONSON: Okay. Right, so, to summarise, although you met Mr Wilmans and Mr Pelissier at meetings in South Africa, I think, two or three -

K SMITH: Yeah.

L JONSON: - you did not, at that time, realise they were associated with John Bredenkamp?

K SMITH: It's not something that, sort of, crossed my mind at all.

L JONSON: Okay. What experience did you understand Pelissier and Wilmans to have in relation to South Africa?

K SMITH: I, I didn't know. I mean, I met them with, with Niall and, I mean, the nature of the discussions was just, sort of, updating each other in terms of what we thought was going on through the negotiation and programme process. I mean, to be honest -

L JONSON: Who was updating who?

K SMITH: Well, that's it. I mean, to be honest, you know, the, sort of, you know, it was a bit of them updating us as to how they felt the overall process was going in terms of the package process, and we just explaining, you know, where we were with the negotiating team.

L JONSON: Were they detailed discussions?

K SMITH: Not particularly. I mean, they were not long. I mean, I can't, you know, we had a, sort of, you know, couple of, sort of, breakfast-type meetings. It was like, sort of, a bit of catch-up on, on what was going on. I mean, it, it's not something I relied on, you know, as a, as a part of the process, it was interesting to understand it. They understood more broadly what was going on with the defence package. But I can't remember detailed discussions.

L JONSON: What, where did you understand their contacts to

be really in order for them to be able to provide this type of information?

K SMITH: I mean, I just thought generally around ARMSCOR, the Defence Department, you know, even, you know, not specific. I mean, it was just they had a reasonable knowledge. I mean, it may be, but that was it really. I mean, a just general, sort of, background information as to what they thought what was going on. I mean, the real, sort of, relationships that they had I wasn't, sort of, sure about, and involved in.

L JONSON: I mean, whenever you met any of these guys, Alex Roberts, Pelissier, Wilmans, did you ever say to, to Niall Irving, okay, give me the gen on these guys. Tell me what, you know, what their experience is, you know, what knowledge have they got so I know how to really judge the information that -

K SMITH: I mean, I did talk to him about Jules and Trevor Wilmans but I can't remember, you know, specifically the nature of that discussion. I mean, these were, sort of, I met him on a few occasions.

L JONSON: Sure.

K SMITH: I mean, we were, sort of, working, you know, on the team in some form or another as consultants had some, sort of, background information potentially as to how the overall programme was running.

L JONSON: Do you consider that they contributed during your period, any tangible way to the furthering

of your campaign?

K SMITH: My period of time was really into the negotiation process. I mean, what they did help with, and it's a long time ago, my recollection is that the general progress on, you know, the package as it was progressing through its approval process etc. -

L JONSON: Who did you, where did you get that information from? Who would have told you that they were helpful with that?

K SMITH: Niall.

L JONSON: Right, okay.

K SMITH: I mean, this was the only, sort of, guy that you know, narks and Niall was the guy around.

L JONSON: Did you speak to Allan Macdonald?

K SMITH: I mean, they were helpful at that, you know, particular time in terms of background information -

L JONSON: Right.

K SMITH: - but, to be honest, I mean, I was in, sort of, full negotiating, I mean, I knew everyday, you know, when I met these guys what the issues were and what we needed to address.

L JONSON: Sure.

K SMITH: So, in terms of background, it was helpful but it wasn't, sort of, supporting what we had to do through that negotiation process through, you know, shape our proposals and our deal to try and get it into a situation where we could secure a contract.

L JONSON: Because our concern in relation to Kayswell is

that it was paid by far the most out of all the agents. You will see from the schedule it was over -

K SMITH: Yeah.

L JONSON: - £40 million.

K SMITH: Yeah.

L JONSON: Are there any records, written records of anything they did, as far as you're aware?

K SMITH: Not that I have seen.

L JONSON: And bearing in mind what you say Richard Charter did which was, if not full-time, at least was around for a fair period -

K SMITH: Yeah.

L JONSON: - assisting -

K SMITH: Yeah.

L JONSON: - the campaign, and you look at what, certainly in your period, what Pelissier and Wilmans did, do you think that they justified the fee that they received?

K SMITH: I don't think my period was, you know, I mean, potentially representative. I mean, in my period Richard did by far the most work.

L JONSON: Mm-hmm.

K SMITH: I mean, Jules and Trevor Wilmans in that sort of period were background information on -

L JONSON: Sure.

K SMITH: - on what was what. I mean, how you, sort of, value that -

L JONSON: Yeah.

K SMITH: - I don't know and I have no idea, you know, what they've done in the context of the

overall programme.

L JONSON: What would they, what would they have had to have done though to, to get £40 million?

K SMITH: Well, I mean, these things are, you know, I mean, you need to look at the agreements and what they were asked to do but, I mean -

L JONSON: Well, that's it, we just thought if they -

K SMITH: Yeah.

L JONSON: - consultancy services.

K SMITH: It doesn't say?

L JONSON: No, of course not.

K SMITH: No. Okay, okay. But, I mean, initially when BAE, sort of, went into South Africa, I mean, it had nothing, basically.

L JONSON: Mm-hmm.

K SMITH: And, you know, to actually, to work with people who could actually support through the various processes which is very complex, I mean, it, if you try and do a deal with a UK government, you know, it's a huge amount of effort to get across the various government departments and do what is necessary across those government departments to build relationships, to understand what's going on, to understand how the processes work, and, I mean, what part they played in that, I don't know -

L JONSON: Okay.

K SMITH: - you know, it was before my time but it is a very important role. I mean, you start with nothing. I mean, to understand how to do that



and to get support in doing it is important. I mean, as I say, I mean, here or in the United States, anywhere else, you do work hard with lots of people to be able to do that. In a lot of these markets you've got assets on the ground. I mean, in America you've got people and assets and they've been there for a long time and you understand it better. I mean, in these circumstances you don't. What they did I just don't know and over that period there was huge amount of change in South Africa, you know, as you know -

L JONSON:

Mm-hmm.

K SMITH:

- and how that impacted on what they did, I really don't know. I mean, in my time, you know they were sort of useful guys who could give a bit of information but they weren't, sort of, you know, instrumental in what we were doing here. I mean, we had our heads down and we were negotiating, you know, a very complex arrangement with a very, very good team of people who knew exactly what they wanted on the South African side, and it was a, you know, I mean, you were always clear, you know, in terms of what you had to do through those stages.

L JONSON:

Can I just take you to the negotiations -

K SMITH:

Yeah.

L JONSON:

- I think you explained Jay Naidoo that he was very straightforward and knew exactly what he wanted.

K SMITH: Yeah.

L JONSON: Any concerns ever about his integrity?

K SMITH: No.

L JONSON: What about Chippy Shaik?

K SMITH: I have, sort of, read, you know, what they've had in the press -

L JONSON: Mm-hmm.

K SMITH: - and, I mean, in terms of my, sort of, interface, no. I mean, you know, I didn't. I mean, as far as I was concerned, the guy, those guys were a team of people who were trying to do a job and he represented the Defence Department in those discussions.

L JONSON: Does the same apply to all the people on that team?

K SMITH: Roland White, Llew Swan, yeah, and, I mean, the DTI guys were probably the, sort of, junior members of the team. But, nevertheless, I mean, played a part, particularly on the NIP and DIP.

L JONSON: What about your involvement? We seen obviously letters from you to Joe Modise. What about him? What -

K SMITH: I mean, I saw Joe Modise a couple of times -

L JONSON: Mm-hmm.

K SMITH: - and really from the point of view of keeping the minister up to speed with what we were doing across a whole range of activity, I mean, it was quite hard to actually get across everything that was going on without actually going to talk to the minister, so it was really, I mean, a

couple of occasions, I think the, sort of, second time I saw him was also to register the point that if the Gripen was delayed then we could not hold the Gripen package together for five years. You know, the financing wouldn't work, the NIP wouldn't work, to make him aware of that. So, my meetings with Joe Modise were really to give him information around where we were in the overall process because I thought it would be helpful for him to understand that.

G MURPHY: Who set those meetings up? How were you able to get access to, to Joe Modise?

K SMITH: Through Niall. I mean, Niall set the meetings up -

G MURPHY: Right.

K SMITH: - with Joe Modise.

L JONSON: How was he able to? Was it just literally ringing his office or, do you know, if Niall went through anyone else, or...?

K SMITH: Just through his, through his assistant. I mean, the guy, and Joe had a PA. I mean, now I've got to know these people very well. It's the same in the UK.

L JONSON: Mm-hmm.

K SMITH: If an industrialist wants to see a minister then they have -

L JONSON: Do you not have to go through the Foreign Office?

K SMITH: No.

L JONSON: Or through the High Commission, or through DESO's equivalent in -

K SMITH: What, to see a minister overseas?

L JONSON: Yeah.

K SMITH: Not that I'm aware of, no.

L JONSON: No, okay.

K SMITH: I mean they can see, you know, sort of, we can have meetings with them to discuss what's going on in the same way you can with a minister in the UK.

L JONSON: Did you have any concerns at all about Modise's integrity?

L JONSON: No. I mean, I didn't have any concerns about that. I mean, my, sort of, concerns were about, and again I've read the stuff about, sort of, Joe Modise. I mean, it was not on my mind at that point in time. I mean, on my mind at that point in time was to, sort of, get on and get this stuff done. I had no relationship with him that would indicate anything other than he was a minister in South Africa who I would treat deferentially but make sure he understood, you know, where BAE were as we worked out way through that negotiation process.

G MURPHY: Something I'm just trying to get my head around, maybe you can help me with this. It's quite clear from what you were saying that, you know, you were hard at work trying to secure the terms and conditions to get the contract signed.

K SMITH: Yeah.

G MURPHY: An awful lot of work was going on there. You said, you know, heads were down -

K SMITH: Yeah.

G MURPHY: - really working hard, negotiating, trying to sort this out.

K SMITH: Yeah.

G MURPHY: Did there not come a time when you were thinking, that you thought to yourself, we need some help here. We've got people on the ground. Who can we turn to? Who can we turn to to give us some help?

K SMITH: I didn't, to be honest. I mean, the only, sort of, area where, you know, I felt I needed help was to understand the affordability issue on the programme and the financing of it. I mean, apart from that, I didn't. You know, I just, you know, we had a team. They had a team. I mean, they'd given us, you know, terms and conditions. They'd given us their expectations -

G MURPHY: Mm-hmm.

K SMITH: - so I wasn't, sort of, unclear about that. I mean, the challenge was keeping ECGD. I mean, you see from the arrangements that we got there we had to get ECGD to confirm that they would hold the financing arrangements open to both tranches, you know, on that package -

G MURPHY: Yeah.

K SMITH: - to get a supplier base -

G MURPHY: Yeah. I can really see all of that -

K SMITH: Yeah.

G MURPHY: - and speed was obviously of the essence then.

K SMITH: Yeah.

G MURPHY: Did there not ever come a time where you sat

Niall Irving down and said, right, Niall, I want to know everything there is to know about these agents. I want to know what they've done in the past. How they've helped us, how can they help us now. You know, it's important, a massive deal.

K SMITH: I didn't. I mean, when I went out there in February-March, this deal was going to be done in June. It was done in July. You know, as far as I was concerned -

G MURPHY: Yeah.

K SMITH: - the record of understanding was done in July. I mean, if you look at the amount of work that we got through in that period to re-position the deal, those things weren't on my mind at all. I mean, you know, the consultants and agency arrangements were what they were. I mean, what I saw was, you know, percentages in the price make-up etc. as we actually looked at it. It was just there. I mean, it was a straight, sort of, commercial arrangement. Could we shape something that would meet the South African requirements to actually do this deal? And a lot of it was about working with, you know, Saab, and Investor group looking at the NIP. We had Percy Barnevik down there who was on the Deputy President's advisory group committee, you know. And, I mean, just to say -

G MURPHY: Yeah.

K SMITH: - to them, look, we can deliver this stuff. I

mean, it was really that.

G MURPHY: It's obviously heavy weight people.

K SMITH: It was hard delivery this stuff, you know. This was not marketing, you know. It was hard. There is integrity behind what it is that we are offering to South Africa and that was really what we were trying to do. So, it was a tight window and I didn't have, I mean, these things, frankly were not on my mind, you know, the stuff in here.

G MURPHY: Mm-hmm.

K SMITH: What was on my mind was, can we shape something that is affordable? Can I get an NIP package that's going to work? Can I get flexibility into that NIP package so we could use exports rather than investment in South Africa as a measure of value, because that was important to us, we didn't have any big investment projects to, to put into South Africa at that point in time. You know, could we get the suppliers on board on this, sort of, tranching arrangement and to reduce costs? I mean, these things were in my mind at that time. It was a real, sort of, straightforward, could we be sharp enough and clever enough to go and put these things together to be able to secure something and negotiate it through with that team? And that's what I was trying to do. I mean, that's where my experience was, you know, in the, sort of, commercial side of the organisation. I didn't understand the concept of help, you know -

G MURPHY: Mm-hmm.

K SMITH: - it was, you go, sort of, get this thing sorted out? And that was it.

L JONSON: Could I turn - do you recognise the names, Muhammed Surtee?

K SMITH: No.

L JONSON: Yusuf Surtee?

K SMITH: No.

L JONSON: Okay. All right I'm done for Kayswell anything else?

G MURPHY: I'm okay on that as well. Okay, we'll move on to the next stage that we're interested in. Does the, the name, Brookland mean anything to you? I mean, from -

K SMITH: From the papers?

G MURPHY: Other than that.

K SMITH: Yeah. I mean, I can't, sort of, I can't be definitive really. But I mean, I may have heard the name, sort of, Brookland.

G MURPHY: Okay. Let me try and approach it in a different way?

K SMITH: Yeah.

G MURPHY: We understand that the principal behind Brookland was a gentleman by the name of Alan Curtis.

K SMITH: Right.

G MURPHY: Does that ring any bells -

K SMITH: Yeah.

G MURPHY: - now?

K SMITH: Yeah. I've met Alan Curtis.

G MURPHY: Okay. In relation to South Africa with Gripen?



K SMITH: I've seen Alan Curtis down in South Africa with the DESO, sort of, group, when Tony Edwards was, was, was head of DESO. And Alan Curtis was a bit like Alex Roberts. I mean, he was the sort of guy who had been, you know, around it for a while and I'd met him at RAF functions and that sort of stuff. So, I did know Alan Curtis.

G MURPHY: Right. So, was he active within the, this whole Gripen contract?

K SMITH: Not in this period that I was involved with, no.

G MURPHY: Right. Do you know whether he was active prior to that?

K SMITH: I don't know what he'd done prior to that. I mean, I had, I had a sense, now you've mentioned it, that, you know, Alan was, was in the consultancy arrangement somewhere but I'd, sort of, looked at him like a, as I say, like an Alex Roberts, you know, he'd give advice and that sort of stuff of a general nature but he was not active in what we were doing in South Africa at that time.

G MURPHY: Right. Was it, I don't mean this facetiously -

K SMITH: Yeah.

G MURPHY: - again I'm just trying to get my head around this, but, you've mentioned a lot of the agents were giving a lot of general background information.

K SMITH: Yeah.

G MURPHY: There's an awful lot of money being paid for a lot of general background information.<sup>4</sup>

K SMITH: Yeah.

G MURPHY: Is that just because you specifically don't know or that was what they were doing, general background information?

K SMITH: No, I don't know. I mean, you know, I mean, I know Alex had been, and Alan Curtis were, you know, had been with the company and close to the company.

G MURPHY: Mm-hmm.

K SMITH: I'm not sure what they did, frankly, particularly Alan, you know, on this, on this sort of programme. And they may have given other support, you know, in terms of advice on specific issues etc. but, during my period I didn't use that.

G MURPHY: Okay. So, would it follow that written reports or anything like that, or services that Alan was to provide, you've no knowledge of?

K SMITH: I haven't seen anything, no.

G MURPHY: Again, pretty much as we've said for some of the other agents, Alan Curtis through Brookland was paid about eight and a half million pounds -

K SMITH: Right.

G MURPHY: - for the role that he carried out. Based upon what you saw him do, would that justify the payment of eight and a half million pounds?

K SMITH: I didn't see Alan -

G MURPHY: You didn't see Alan.

K SMITH: - around in that period, you know, so you can -

G MURPHY: Full stop.

K SMITH: - yeah, I mean, he was not involved in what I was doing in terms of this negotiation process.

G MURPHY: So, in terms of the negotiation process, yeah, okay, fine. You, I might be wrong here, please correct me if I am, did you say that Alan Curtis had a relationship with Dick Evans, or am I...?

K SMITH: Yeah, he did.

G MURPHY: Oh, he did. Okay.

K SMITH: I mean, he knew Dick. I mean, it seemed to me, you know, again, I'd seen Alan at functions -

L JONSON: Yes.

K SMITH: - you know, the sort of air force, retired air force officers functions and that sort of stuff from time to time.

G MURPHY: Who first introduced you to Alan?

K SMITH: I think it was Dick.

G MURPHY: Right.

K SMITH: He took me to, I went with him, I mean, I'll never forget it because I was sat next to Denis Thatcher -

G MURPHY: Right.

K SMITH: - you know, who was also - you know, there's a bunch of these guys who look after the, you know, retired air force officers and they do auctions for, you know the survivors of the second world war in the air force and that sort of stuff.

G MURPHY: Mm-hmm.

K SMITH: I first met Alan there and I'd seen him a couple of times post that but I haven't spent much time with Alan.

G MURPHY: Did, do you know whether Mike Turner or, well, Mike Turner in BAE, did he have a, any sort of a

relationship, business relationship with Alan Curtis?

K SMITH: I don't know.

G MURPHY: No.

K SMITH: I don't know.

G MURPHY: Back to Sir Charles Masefield.

K SMITH: Yeah.

G MURPHY: Now, I understand he was around at various stages in the, in the contract. Do you have any knowledge of what he did in relation to, to this?

K SMITH: Well, Sir Charles Masefield was the head of DESO.

G MURPHY: Yeah.

K SMITH: But I can't remember, was he the head of DESO at that time?

L JONSON: 19...

G MURPHY: Part wasn't it?

K SMITH: Yeah.

L JONSON: Certainly 1999 he was.

K SMITH: Yeah. I think has he'd just sort of taken over in DESO or something during 1999? Maybe.

G MURPHY: I'd say you're probably right actually. Yeah.

K SMITH: So, I knew Charles from BAE. I mean, not very well. He was the head of the, sort of, commercial aircraft business for a while in BAE, and then as he went to DESO I did, sort of, interface with him at that time.

G MURPHY: Right.

K SMITH: I can't remember where he was on the South African programme, I really can't. I

mean, it may have been towards the end of it he came down and, sort of, to contract signatures and that sort of stuff. Again, it was, you know, the DESO role and co-ordination back into ECGD and the other various government -

G MURPHY: Yeah.

K SMITH: - departments in anything.

G MURPHY: Who else in DESO was involved at your time in South Africa, assisting?

K SMITH: I can't, I can't remember. I can't remember who was on the -

G MURPHY: Did you have much involvement with them?

K SMITH: Most of the involvement with DESO during that period was to support the ECGD arrangements, and, I mean, their role in that process was to explain internally within government, you know, how important it was, the ECGD, so they kept these arrangements in place, the government continued to support the finance. Beyond that, no. I mean, I can't think of, as you can tell, I mean -

G MURPHY: Yeah.

K SMITH: - I can't remember who was on the South African desk.

G MURPHY: Okay. Just while we touched on it -

K SMITH: Yeah.

G MURPHY: - you mentioned the ECGD -

K SMITH: Yeah.

G MURPHY: Did you play any part in negotiations briefing of the ECGD?

K SMITH: Not directly, no. Barclays did that. I did,

sort of, play a part with Barclays. I mean, Barclays provided the financing.

G MURPHY: Yeah.

K SMITH: You know, 85% of it was ECGD supported and 15% was commercial. The actual ECGD fees I think were, would be discussed by BAE and, sort of, experts in BAE, and there are a group of experts in BAE, and they would, sort of, interface with, with Barclays and the ECGD. So, I can't remember actually seeing ECGD directly myself during that period.

G MURPHY: Right.

K SMITH: What I can remember is talking to Gaby Buck at Barclays at one of my regular meetings, heading up the finances -

G MURPHY: I think there's some documents in the pack -

K SMITH: Yeah.

G MURPHY: - that we've served on.

K SMITH: Okay.

G MURPHY: Yeah. Okay. Back to Brookland and Mr Curtis. Do you know anything about an organisation called the Airborne Trust in South Africa?

K SMITH: I've heard of it, and I think it is, sort of, as a similar relationship back into the equivalent sort of thing that I was talking about in the UK. But I have heard of it. I've, I've not got intimate, sort of, knowledge of the Airborne Trust.

G MURPHY: Anybody else on Brookland or Curtis?

L JONSON: No. I just, one thing though. Can I just ask about John Bredenkamp?

G MURPHY: Yeah, sure.

L JONSON: It's just as a result of a Curtis question that, do you know if he had any relationships with people like Dick Evans and Mike Turner?

K SMITH: I don't, specifically. I mean, as I say, I had very little knowledge of him at all. He was way before my time I think in terms of the involvement etc.

L JONSON: Okay.

G MURPHY: I can see what you're saying about your role -

K SMITH: Mm-hmm.

G MURPHY: - where you fitted in and the fact that Niall Irving was dealing, more or less, if there was any face-to-face meetings and negotiations required with agents -

K SMITH: Mm-hmm.

G MURPHY: - that was Niall's role. It would appear to me, though, that somebody would have had to have kept control of that, at a senior level, therefore. Now, from what you're saying it wasn't you.

K SMITH: In terms of?

G MURPHY: In terms of if Niall had a problem -

K SMITH: Yeah.

G MURPHY: - or if he, if he wasn't happy with the way an agent -

K SMITH: Yeah.

G MURPHY: - was performing, then I would have thought there would have had to have been a reporting process, somebody who they could go to, who he could go to.

K SMITH: Yeah.

G MURPHY: Now, it would appear that that wasn't you.

K SMITH: Not during this negotiation period. If that would have happened -

G MURPHY: Yeah.

K SMITH: - he would have spoken to me.

G MURPHY: He would have done?

K SMITH: Yeah. I mean if, you know, I mean, Alan is, the RMD that normally he would, sort of, speak to and Alan would understand and be involved in the agency arrangements. During this period if there was a problem then he would have, you know, had the opportunity to discuss it with me and I would have tried to help him.

G MURPHY: Okay. Would he have had the opportunity to have discussed it with anybody else?

K SMITH: I would think Mike.

G MURPHY: Mike?

K SMITH: Turner.

G MURPHY: Turner.

K SMITH: Yeah.

L JONSON: Why would he discuss it with Mike Turner?

K SMITH: Well, just because Mike would have had responsibility for IMSO. I'm not suggesting there were any.

L JONSON: Right.

K SMITH: You know, I don't know whether -

L JONSON: Mike had responsibility?

K SMITH: Before I, sort of, took the role in the new business area, I mean, Mike had been involved in, he headed up the IMSO organisation.



He was also involved in the referrals committee.

G MURPHY: So you're saying because of that previous experience?

K SMITH: Yeah, yeah. I mean, I'm not aware, again, during this period there were issues. I mean, the, you know, the, the, sort of, I mean, Niall's, sort of, hardest work was, as I say, when we had to go look at these agreements to see whether we could handle the tranching arrangements, and to try and reduce some of the numbers. But, I mean, during that period, you know, the, sort of, remit was, you know, we need to be absolutely clear where we are on the liability side, you know, that's got to be absolutely clear, and if there's things that you can do on the quantum then just do your best, you know.

G MURPHY: Mm-hmm.

K SMITH: But I'm not aware that Niall had, during that period, issues with, with individual people.

G MURPHY: Are you aware of Mike, Mike Turner dealing directly with any of the agents?

K SMITH: No.

G MURPHY: Maybe not through Niall?

K SMITH: No.

G MURPHY: Not any meetings or -

K SMITH: What, during this period?

G MURPHY: During that period.

K SMITH: No.

G MURPHY: What about during earlier periods?

K SMITH: I don't know. I just don't know.

G MURPHY: Not something you would have privy to if that was, that was going on? You never formed the impression during your period then that Mike might have been having meetings with anybody else? That Dick Evans might have been having meetings, or anybody else come to that matter?

K SMITH: Well, I mean, you know, all the, the, sort of, you know, people that we've talked about, Alex Roberts, Dick met with. I mean, how many times he met with him, I don't know. I, it wouldn't surprise me if Mike met with him but I don't -

G MURPHY: No.

K SMITH: - know that to be the case. You know, I don't have any, sort of, specific knowledge about, you know, what was going on prior to my period or, frankly, even during it, you know, in that context.

G MURPHY: Okay.

L JONSON: Next?

G MURPHY: Yes, I think it's me again.

L JONSON: Yeah.

G MURPHY: Okay. Excuse me. Okay, do you have any knowledge of an individual called Nabil Hajazi?

K SMITH: I do know Nabil, yes.

G MURPHY: In relation to?

K SMITH: In relation to -

G MURPHY: - Hawk Gripen, South Africa?

K SMITH: I'm not sure Nabil, whether Nabil was directly involved or not. I mean, he was involved in, in

consultancy arrangements with BAE and he was another, sort of, sorry, I mean, I'm not, sort of, trying to pass anything off, he was another Dick, you know, guy, he'd worked with Dick on a number of projects. He'd also worked with GKN so, where I am now -

- G MURPHY: Right. Is this since your arrival or?
- K SMITH: No, before.
- G MURPHY: - previous to that?
- K SMITH: I mean, they had a, sort of, a case in Egypt, I think, that Nabil was involved in.
- L JONSON: Do you know where he did consultancy work, aside from maybe South Africa?
- K SMITH: I think primarily the Middle East.
- L JONSON: Can you be more specific than that?
- K SMITH: I can't.
- L JONSON: Right. Do you know where he is now?
- K SMITH: I don't.
- L JONSON: And you say, I don't know if he had any role indirectly or directly with South Africa. I mean, the information we have is that he's the principal behind a company called Zomita -
- K SMITH: Okay.
- L JONSON: - who received some money -
- K SMITH: Yeah.
- L JONSON: - which the last payment was made on the 13<sup>th</sup> February 2002.
- K SMITH: Right.
- L JONSON: And I, as I say, I was wondering what he did to justify, I think it's eight, maybe it's more, 10, it should be there.

K SMITH: Yeah.

L JONSON: Yeah, eight-nine million, that he would have done to justify that, that type of fee really.

K SMITH: I don't know.

L JONSON: Did he have any links with South Africa, as far as you're aware?

K SMITH: I don't know.

L JONSON: Are you surprised that he might be associated -

K SMITH: No, I'm not. I mean, I, you know, I, sort of, Nabil was around at that time on -

L JONSON: When you say he was around?

K SMITH: Well, I mean, I'm just trying to think what we, what we did with Nabil. I mean, Nabil was another guy that had a relationship with Dick who we probably did talk to on the South African programme at that time in a similar vein to Alex Roberts.

L JONSON: Do you remember, you say probably, do you remember?

K SMITH: Well, I mean, I've seen quite a lot of Nabil and that's a long time ago, you know. I think we probably did. I think he was, which is why I, sort of, said maybe he had some involvement in the South African programme.

G MURPHY: Did, can you remember did you see him in South Africa?

K SMITH: No.

G MURPHY: It wasn't South Africa.

K SMITH: I haven't seen him in South Africa, no.

G MURPHY: So, what expertise has he got then that would bring, that would add value to this contract?

K SMITH: I don't know. I mean, my sense is that he's another, you know, he's a businessman, an international businessman who has, sort of, experience and background in these markets.

G MURPHY: Right.

K SMITH: So, and that was it. I mean, what else and what he, you know, specifically has done through time for BAE I'm not sure.

G MURPHY: Can you remember ever having to discuss or debate the merits of appointing Nabil Hajazi as an agent at a referrals committee?

K SMITH: Not specifically. I mean -

G MURPHY: Right.

K SMITH: - that doesn't mean to say that I haven't.

G MURPHY: Right.

K SMITH: But, not specifically.

G MURPHY: You can't remember?

K SMITH: No, I can't remember specifically talking about, about Nabil.

G MURPHY: I've got no more questions on that. Lydia? Brenda?

B SMITHWHITE: Was Nabil primarily based in the Middle East, do you know?

K SMITH: Nabil, he lives between, somewhere, I think, Lebanon, London and California. He's a member of the Carlisle Board in Europe. As I say, he's got a range of things that he does, and a part of my relationship with Nabil is he introduced me to, to the guys in the Carlisle Group. So, I mean, where he's, where he is at the moment and where his real base is, I'm not sure.

B SMITHWHITE: Thanks.

G MURPHY: Lydia?

L JONSON: Okay. Just a few questions on the last two agents who are called, the first one is Sujanara Ltd, again -

K SMITH: Who is that?

L JONSON: That's Roger Harding.

K SMITH: I know Roger Harding.

L JONSON: Now, Roger Harding was paid less, significantly less in fairness, than most other people. I don't know if you've got the full amount but -

K SMITH: Yeah.

L JONSON: - but he was paid a, I think it was approximately 50,000 -

K SMITH: Yeah.

L JONSON: - for work, I think specifically in relation to the Gripen -

K SMITH: He did, yeah.

L JONSON: - rather than - I mean, can you, that's from, obviously, papers that we've seen.

K SMITH: Yeah.

L JONSON: Perhaps could you just elaborate a little bit on that for me?

K SMITH: I can. I mean, I know what, I believe I know what Roger did. I mean, what Roger was doing was that, you'll see from the papers, excuse me, the Gripen was subject to US export control because it had various, sort of, US equipment so you'll see in here the US approval to the export of Gripen was an important thing. Roger had

worked in Washington for the UK government in the embassy there -

L JONSON: Mm-hmm.

K SMITH: - so he had good relationships in North America, and he helped with what had to be done through the export, let me see, I can't remember what it is in North America, the export approval to put submissions together and help, you know, with relationships with people there.

L JONSON: Right.

K SMITH: Apart from that, I don't know anything else that Roger did but I do know he did that for us during that period and helped with that.

L JONSON: Okay. And he, I think he had consultancy agreements in relation to other territories as well. Do you know anything about that?

K SMITH: I'm not, I'm not aware of that. I mean, you know, Roger, you know, tried to set himself up as a consultancy and he was, you know, sort of, in some respects probably not well qualified to do that. I mean, what he did in the broad with British Aerospace, I don't know.

L JONSON: Right.

K SMITH: My involvement with him was really about that issue. He had relationships in Sweden as well. I'd say he was really a help with the Swedish Ministry of Defence getting the FMV to put the right sort of processes in place to get export approval for Gripen out of Sweden to South Africa.

L JONSON: I mean, one of the documents, page 113 -  
K SMITH: Yes.  
L JONSON: - which is DOCMan 013483000062. This is a  
letter from Julia Aldridge to -  
K SMITH: Yeah.  
L JONSON: - get you to confirm your agreement for  
consultancy agreement. Do you, were you  
essentially responsible for agreeing that amount  
to be paid to him for the job he did with the  
export licence?  
K SMITH: I cannot remember specifically. I can't  
remember.  
L JONSON: Okay. Just going back to page 110 which is  
01348300156. It appears to be an  
expenses claim form from Mr Harding. It looks  
as if in November 1992 he had a meeting with  
Sir Patrick Hine. Do you know what that would  
have been in relation to?  
K SMITH: No.  
L JONSON: Might it have been in relation to South Africa?  
K SMITH: I doubt it.  
L JONSON: Really. Why?  
K SMITH: I mean, Roger had a relationship with, you know,  
with Jerry and I don't think at that time in  
1992, I don't even know what Roger was doing in  
1992.  
L JONSON: Right.  
K SMITH: He wouldn't have been involved in South Africa.  
I mean, there was no Gripen on the table in  
1992.  
L JONSON: And he would only have been involved with



Gripen, never Hawk?

K SMITH: I think, I mean, I can't be absolutely categorical on that, but I think so.

L JONSON: Okay. Page 116 is DOCMan 013482000002 which is a letter written to Mrs Harding after the passing away of Roger Harding enclosing an ex gratia payment of £100,000. Is that a standard thing that tends to happen?

K SMITH: I don't know. I don't, I honestly don't know.

L JONSON: Were you surprised when you saw this?

K SMITH: Not really. I mean, it was, sort of, it looked unusual but, you know, Roger, you know, was, was a good servant, you know, and I think BAE generally has been quite good with people who they feel that are maybe in difficulties where they've supported the company. I don't know what circumstances Roger's wife was in but there are other circumstances where people who worked with the company and if they have had difficulties then BAE would help them out. So, it doesn't surprise that his widow actually got some payment from BAE and it wouldn't surprise me if there weren't other instances where that happened with people who did work, you know, with the company for a long time in any capacity.

L JONSON: Well, I mean, obviously Mr Charter, did you know Richard Charter? Did you keep in contact with him after -

K SMITH: No, I didn't. I didn't.

L JONSON: You obviously know the circumstances of his -

K SMITH: I heard he had an accident and he had passed away.

L JONSON: Yeah, I mean, Mrs Charter entered into correspondence with the company after.

K SMITH: Right.

L JONSON: Really, because, I don't know if you know, a lot of the agreements, particularly the Red Diamond agreements, were terminated prematurely in 2004 -

K SMITH: I didn't know.

L JONSON: - before the company had received the payments from South Africa.

K SMITH: Right.

L JONSON: And the company certainly paid Huderfield and Osprey's termination payments.

K SMITH: Right.

L JONSON: They didn't pay any more than that.

K SMITH: Okay.

L JONSON: Whereas, of course, here we have Mrs Harding who receives all the money on top of this £100,000 did receive further monies that were due under Roger Harding's contracts. But, obviously, receives this quite generous gift. It's just there are two different, two different scenarios.

K SMITH: Yeah. I mean, you need to talk to BAE about that but, I mean, my, I'd known, sort of, Roger, you know, he's an excellent servant, I mean, not, sort of got a lot behind him and had been a good soldier for the company over a long period. He knew everybody in the group. We'd all, sort

of, worked with him when he was in Washington in some form or other. He'd done a good job, you know, in the government etc.

L JONSON: Right.

K SMITH: So, I mean, this would be, I think, different to that arrangement.

L JONSON: Okay.

K SMITH: I think this would be, you know, people would really feel for the fact that Roger had passed away because he was a friend, you know, to quite a lot of people, within, within the group. So that does not -

L JONSON: Okay.

K SMITH: - sort of, surprise me.

L JONSON: The next, the other company is CIC Ltd -

G MURPHY: Sorry, just before you go on to that.

L JONSON: - Sorry, yeah.

G MURPHY: Yeah. Obviously it's, from what you're saying, it's clear that Roger Harding did this work on the -

K SMITH: Supporting of some -

G MURPHY: - the US export -

K SMITH: Yeah.

G MURPHY: - issue. Where, where is all that, the record of what he did, where is that kept?

K SMITH: I don't know now. I mean -

L JONSON: Would there be records?

K SMITH: There will be, sort of, files on the US, sort of, export -

L JONSON: Yeah.

K SMITH: - submissions etc. I really don't know. I

mean, I don't know whether that would be in, he would actually, the Swedes would put in the export licence applications, FMV, and his relationships were both into FMV and into the State Department in North America. I can't tell you where the records of that would be.

G MURPHY: But you think there would be some?

K SMITH: Well, there'd be, I mean, I would be surprised if there wasn't some sort of correspondence or stuff. I mean, maybe there isn't, you know -

G MURPHY: Yeah.

K SMITH: - but, I mean, you know, this was, maybe there isn't, but I would be surprised if there's not something around.

G MURPHY: All right, okay. I have to stop you there because -

K SMITH: Can I just use the loo?

G MURPHY: Absolutely. Yeah, I'll tell you what, we'll just stop this tape.

K SMITH: Okay.

B SMITHWHITE: Okay, end of tape five. The time by my watch is 14.47.

**(End of Tape)**

TRANSCRIPT OF INTERVIEW HELD AT THE SERIOUS FRAUD OFFICE ON  
THURSDAY, 4<sup>TH</sup> OCTOBER, 2007.

CASE REFERENCE RLI02

TAPE 6 OF A BATCH OF 6

PERSON BEING INTERVIEWED: SIR KEVIN SMITH

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MS CAROLINE HALLIDAY	-	SOLICITOR

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B SMITHWHITE: This is the start of tape six of the  
Section 2 interview with Sir Kevin Smith.  
Please can you confirm, Mr Smith, that we have  
not discussed any matters relating to this case  
during the interval since the end of the  
last tape, and the same five people are here?

K SMITH: I can.

B SMITHWHITE: Thank you. And the time by my watch is 14.58.

L JONSON: Moving on to the last agent we're going to deal  
with today and that's CIC,  
Commercial International Corporation. Had you  
heard of that company before you'd been sent the  
document pack?

K SMITH: I don't think so, no.

RLI344

FIRST DRAFT

L JONSON: Do you know who the principal is behind it?

K SMITH: No.

L JONSON: The reason I ask is that it's not clear from the paperwork we've seen exactly who is behind it.

K SMITH: Right.

L JONSON: We understand from papers that have been put in together, and perhaps if we go to page 108a which is 013481000056.

K SMITH: Yeah.

L JONSON: We can see it's some hand-written, handwriting on British Aerospace note paper from that belonging Julia Aldridge, executive of HQ Marketing Services. And on the right-hand side there's some handwriting in relation to the agreements for Arstow.

K SMITH: Mm-hmm.

L JONSON: But on the left-hand side the agreement is in relation to CIC. For this and for other reasons we suspect that Alex Roberts may be behind both, well, we know who's behind Arstow but we suspect he may be behind CIC. Do you have any knowledge of him having more than one consultancy agreement?

K SMITH: I don't.

L JONSON: And if we go to the next page, which is 108b, which is an ex-committee application which was provided to us under the umbrella of CIC -

K SMITH: Right.

L JONSON: - by BAE. The proposal is to make a one-off payment of £100,000 to Arstow -

K SMITH: Mm-hmm.

L JONSON: - and then the second one, it's proposed to pay Primula Investments a retainer of £75,000. Now, the confusion that we've got, very bluntly, is that this is provided to us, as I say, under the title "CIC paperwork".

K SMITH: Yeah.

L JONSON: But we've got an Arstow proposal and a Primula proposal both of which we think are linked to Alex Roberts.

K SMITH: Right.

L JONSON: And, of course, you've approved it at the bottom -

K SMITH: Yeah.

L JONSON: - on the 24<sup>th</sup> September 1998. I wondered whether or not, again, you could, having seen this document, that would assist you any further identifying what CIC did.

K SMITH: It really doesn't, I just cannot remember.

L JONSON: I'm not sure if I have already taken that one.

G MURPHY: No.

L JONSON: Not really. Okay. Just, going back to Fana Hlongwane for a minute.

K SMITH: Yeah.

L JONSON: Did, have you had any involvement with him in relation to helicopters? Since leaving BAE?

K SMITH: I, I'm not sure, to be honest, whether he was involved in the helicopter programme or not.

L JONSON: Which helicopter programme is it?

K SMITH: There's a **Lynx helicopter programme for South Africa** -

L JONSON: Right.

K SMITH: - that was deferred out of the original defence package and wasn't contracted until -

L JONSON: Who owns Lynx?

K SMITH: It's Westland Helicopters -

L JONSON: Is it Westland.

K SMITH: - which became, sort of, part of Agusta Westland -

L JONSON: Right.

K SMITH: - which GKN sold to Finmeccanica in 2004.

L JONSON: Right, okay.

K SMITH: Yeah.

L JONSON: So when you went to GKN, was it called GKN then?

K SMITH: It was.

L JONSON: They owned Westlands?

K SMITH: They owned Westlands and we'd just done the, well, we were in the process of doing the arrangements with Finmeccanica for the Agusta Westland joint venture -

L JONSON: Right.

K SMITH: - which was done in, sort of, 2001 or 2002.

L JONSON: Right. And the South African government were interested at one point in purchasing the Lynx?

K SMITH: They were and they did eventually purchase the Lynx. I can't remember what year. I think it may be 2003 or something like that.

L JONSON: Was that after it was sold off by GKN.

K SMITH: It was before it was sold off by GKN.

L JONSON: And how much involvement in that did you have?

K SMITH: Almost nothing. I mean, next to nothing at that time.



L JONSON: But I thought you were MD of GKN Aerospace.

K SMITH: I was MD of GKN Aerospace but, I mean, it was a joint venture arrangement. I was chairman of the Agusta Westland board at that point in time -

L JONSON: Right.

K SMITH: - so on a day-to-day basis, I mean I didn't have much -

L JONSON: Okay.

K SMITH: - involvement in the management of the business.

L JONSON: Were consultants, were, did you use consultancy agents then?

K SMITH: Agusta Westland did use consultants as did, as did Finmeccanica and Agusta. So, yeah, consultants were used.

L JONSON: Did they use any of the people that -

K SMITH: I don't know whether they used Fana, I don't know. They may have used Fana but I can't, I had no information at all about -

L JONSON: You didn't introduce Fana to people at Westland and say, use this guy at all?

K SMITH: I didn't. But I did, I did introduce Fana to, although, maybe I didn't, but I did, I did introduce Fana to Richard Case.

L JONSON: Sorry, Richard Case is?

K SMITH: He is the Managing Director of Agusta Westland.

L JONSON: Right.

K SMITH: I mean, I wouldn't, sort of, tell them, you know, what to do, but I did introduce Fana to Richard Case.

L JONSON: Right.

K SMITH: Which would probably have been in around 2001-2002.

L JONSON: Right, okay.

K SMITH: So, I did.

L JONSON: Okay. Thank you.

K SMITH: Yeah.

G MURPHY: What was the reason for introducing him?

K SMITH: Basically I, to see if he could, if they needed any help. I mean, Fana had set up his own consultancy at that point in time which I was aware of.

G MURPHY: Right.

K SMITH: And -

G MURPHY: What company is that?

K SMITH: I don't know what it's called. But I was aware of that and they had, you know, a NIP and DIP and all that stuff on the helicopter programme. So, I did introduce them to see whether he would be helpful in their understanding of what we needed to do, you know, to get a programme in place -

G MURPHY: Yeah.

K SMITH: - that would work. So, yes, I did do that.

G MURPHY: Okay.

L JONSON: I was just going to deal with a document.

G MURPHY: Okay.

L JONSON: Is that all right with you?

K SMITH: Yeah.

L JONSON: There's just, you'll be relieved to hear, there are only two documents now -

K SMITH: Okay.

L JONSON: - that I want to take you through from the  
general pack.

K SMITH: Okay.

L JONSON: And that's page 72.

K SMITH: Okay.

L JONSON: I just don't understand what this means at the  
top, 'No.1 (cash flow Kevin Smith 'OG  
tranching)'.  
tranching)

K SMITH: Yeah.

L JONSON: Do you know what that means?

K SMITH: I think it, I think it means that when we did  
the tranching arrangement around the Hawk and  
Gripen -

L JONSON: Mm-hmm.

K SMITH: - what, what the outcome was of the discussions  
on the consultancy arrangements that we'd asked  
Niall to have a look at. I mean, it's the  
cash-flow for the tranche programme, and what  
we're trying to do is to make sure that we did  
not have any liabilities for tranche two until  
tranche two was actually approved by the  
South African government.

L JONSON: So, what does OG stand for?

K SMITH: OG stands for on gross. I mean, that's not  
my term. It's -

L JONSON: And on gross means?

K SMITH: A proportion of the price.

L JONSON: On gross wouldn't necessarily always reflect,  
relate to consultancy groups?

K SMITH: No. You had financing costs.

L JONSON: Right.

K SMITH: You know, anything that was a proportion of the price. So the ECGD premium would be an on gross.

L JONSON: It's including costs. It's costs that you have to factor in?

K SMITH: Yeah.

L JONSON: Okay.

K SMITH: As a proportion of the selling price. So, I mean, it could be a range of things.

L JONSON: While we're on kind of proportion things, did, were the South Africans ever told the percentage that had been allocated to consultants under the contract?

K SMITH: Not that I'm aware of.

L JONSON: It wasn't a, they didn't request the information as part of the formal contract?

K SMITH: Not whilst I was around, no.

L JONSON: Right, okay.

K SMITH: I mean, they wouldn't know, during that period it wasn't asked for.

L JONSON: Okay. The next - is everyone all right on that document?

G MURPHY: Yeah.

L JONSON: The next one is page 83.

K SMITH: Yeah.

L JONSON: Oh, I should have done, did I give a DOCMan number? I didn't, did I? Sorry. DOCMan number for 72 was 012068000413. And 83 is, I've lost it there.

G MURPHY: 83?

L JONSON: Yeah. DOCMan number 011975000275, and as you

can see this is a document which seems to have had some form of post-it put over it. I'm afraid we don't know what's underneath it, but trying to decipher from what's there, it's a BAE document and it's really the last, sorry, the top four lines that I'm interested in, which are, 'From meeting with Pat Gosden, 22<sup>nd</sup> August 1990 the HQ Levy position has changed. Hugh Dickinson/Niall Irving have now uncovered the extent of Allan Macdonald's commitments which appear to be legally binding. Also Niall Irving was only tasked to look at the HQ levy, tranched approach/transfer of commitment on Gripen!!' Firstly, can you explain what the extent of Allan Macdonald's commitments are?

K SMITH:

No.

L JONSON:

And the second point about Niall Irving only being tasked to look at the HQ Levy tranched approach/transfer of commitment. Do you know what the transfer of commitment bit it means? I can see the tranched approach obviously must relate to the request by you to Irving to look at things -

K SMITH:

Yeah.

L JONSON:

- bearing in mind the tranching arrangements.

K SMITH:

Yeah.

L JONSON:

But the transfer of commitment?

K SMITH:

I don't know what that means.

L JONSON:

Right, okay. That's the last of the paperwork.

K SMITH:

Yes.

G MURPHY: Yeah, okay. Anything, Brenda? Yeah? Yeah.

B SMITHWHITE: Should I?

G MURPHY: Yeah, ask if he's ever worked with her.

B SMITHWHITE: Yeah. You've mentioned quite a few people that you've worked with over the years, and I think Lydia mentioned before Julia Aldridge. Have you had much contact with Julia Aldridge at all?

K SMITH: Not, I mean, in the time when I was in this role, you know, Julia was around working for Hugh Dickinson.

B SMITHWHITE: Working for Hugh?

K SMITH: Yeah, I believe so, yeah.

B SMITHWHITE: And what did you understand her role to be?

K SMITH: Just an assistant to Hugh. I mean she wasn't very senior. I don't know what's happened but, I mean, she wasn't very senior at that time. She was more supporting Hugh in administration-type activities is my recollection.

B SMITHWHITE: Did she used to attend the referral committee meetings?

K SMITH: I don't know. I don't know.

G MURPHY: That's okay. Does the name Tony Yengeni mean anything to you?

K SMITH: I've heard the name I think but it doesn't mean anything to me.

G MURPHY: Right. Tony Yengeni is a South African public servant.

L JONSON: Chief Whip -

G MURPHY: Chief Whip

K SMITH: Right.

G MURPHY: - or ex-Chief Whip, who, I believe, was jailed -  
L JONSON: Mm-hmm.  
G MURPHY: - in South Africa for, after being found guilty  
of receiving bribes -  
K SMITH: Okay.  
G MURPHY: - in the form of Mercedes cars -  
K SMITH: Okay.  
G MURPHY: - and things like that by, I think it was a  
German company.  
K SMITH: Okay.  
G MURPHY: Were you aware of that at all?  
K SMITH: I mean, that's, I think I was, yeah. I mean, I  
read the stuff in the press at the time -  
G MURPHY: Yeah.  
K SMITH: - and this is probably why his name is a bit  
familiar.  
G MURPHY: Yes, yeah. What did you think of that? Did  
that ring any alarm bells as far as BAE were  
concerned?  
K SMITH: I can't remember. I mean, I don't think so, no.  
I mean, when was it?  
G MURPHY: Was it 1998-1999?  
L JONSON: He wasn't jailed then, he was jailed quite  
recently but, yes, it was, it was around the  
time of the arms -  
G MURPHY: Yeah.  
L JONSON: - it was for receiving a luxury Mercedes -  
K SMITH: Yeah, okay.  
L JONSON: - by one big German consortium.  
K SMITH: Okay.  
G MURPHY: Yeah.

K SMITH: I mean, I can't remember that that, sort of, featured in my thought process at all, my radar screen. I probably heard about it.

G MURPHY: Was it something that was discussed within, within BAE? I'm just thinking of, you know, the knock-on effect, the possibility of, you know, that bribes are being paid and gratefully received in some quarters in South Africa. Was that something that was, you know, uppermost in BAE's mind at the time?

K SMITH: I can't remember a discussion on that point, associated with that.

G MURPHY: Right.

K SMITH: So, no, I would, I mean, I can't remember, you know, that discussion. I do remember a little bit about the, sort of, press coverage at the time, but that's about it really.

G MURPHY: Right. What was it that was being done by the team that you were working with to ensure that such occurrences were not taking place with the agents that you were employing?

K SMITH: I mean, just through the relationships and the agreements that were put in place. I mean, to be honest, you know, I don't know specifically, you know, what specific measures were taken at that time.

L JONSON: Do you think any of them were?

K SMITH: I just don't know. I mean, I think in, in the appointment and the management of agents and consultants and the way that was done, I mean, my sense of it was from my, sort of, involvement



that there was fairly, sort of,  
strong governance processes around that.

G MURPHY: How did you, sort of, form that view? How -

K SMITH: Well, because, I mean, the legal involvement in  
what we were doing.

L JONSON: Was that Philip Riley and -

K SMITH: Yeah and that team, you know, and the, sort of,  
audit process that went through it, and the fact  
that, you know, agreements were continually  
reviewed every year in, sort of, some form or  
another.

L JONSON: But, let's say, for example -

K SMITH: Yeah.

L JONSON: - you say that it's the RMD that's responsible  
really for nominating and justifying the agent?

K SMITH: Right.

L JONSON: The person who's going to know, realistically on  
the ground if the person is a bit dodgy -

K SMITH: Mm-hmm.

L JONSON: - the best person to know that is the RMD.

K SMITH: Mm-hmm.

L JONSON: But if he thinks the business is going to be won  
in that way he still may put forward an agent  
and say, I support him, he'll do a good job. He  
goes to the committee, the committee have to,  
they rely on what he tells you -

K SMITH: Mm-hmm.

L JONSON: - on what he tells the committee, legal rely on  
it, finance rely on it and it's signed off and  
then Dickinson, of course, has to do what the  
committee have authorised.

K SMITH: Mm-hmm.

L JONSON: Now, I don't see how that is a sufficiently adequate mechanism for ensuring that bribes are not being paid.

K SMITH: Mm-hmm.

L JONSON: That's my difficulty because, in the end although the referrals committee is there in principle, if they are only relying on the RMD that means that RMD has to vouch entirely for an individual, and it's really the governance is down to him. So, all these procedures that are put in place really have no particular effect if it is just down to one person.

K SMITH: Well, I mean, I think that the individuals that are involved are pretty important, you know, and, I mean, there are, sort of, standards in BAE and ethics and those things and, yeah, at the end of the day wherever you are you get down to that sort of level. I mean, if you work in a procurement department you do rely on the people at the end of the day to behave in accordance with what is correct and to handle these arrangements in that way.

L JONSON: Okay. But take, for example, Qatar.

K SMITH: Yeah.

L JONSON: You may not have had any experience with selling any type of equipment to Qatar, but Qatar was a country to which an agreement was entered into with the, a foreign public official -

K SMITH: Mm-hmm.

L JONSON: - as in an agent, and that has been fully

accepted by the company.

K SMITH: Mm-hmm.

L JONSON: So, to say they have standards and ethics and procedures, it's an easy thing to say -

K SMITH: Yeah, yeah.

L JONSON: - but actually quite difficult thing to put into practice.

K SMITH: Yeah.

L JONSON: And when it's happened once, why, really, my question is, what, what are the company pro-actively doing to ensure that this is not happening anywhere else?

C HALLIDAY: Excuse me, are you asking Kevin to comment on the -

L JONSON: I'm not asking him to comment on Qatar, no, but I'm explaining - the company has paid foreign public officials in the past -

K SMITH: Mm-hmm.

L JONSON: - as agents. Now, I'm not asking him to comment on the legality of that -

K SMITH: Mm-hmm.

L JONSON: - but I'm asking him to comment really on the ethics because he has just said the company has standards, the company has ethics -

K SMITH: Mm-hmm.

L JONSON: - but here we have an example where actually that's not been the case.

K SMITH: Okay.

L JONSON: So, can you give any further explanation as to what part of the referrals procedure, referrals committee procedure, the

audit procedures, what that can offer, what comfort that could offer to an onlooker that bribes along the line were not being paid?

K SMITH: I mean, at the end of the day the whole process, as far as I was concerned, was such that that did not happen. I mean, through the appointment of the agents and how that was done, I mean, the referrals process was a part of that. But -

L JONSON: I just don't see how you can ensure that's happening.

K SMITH: Okay.

L JONSON: No, but I'd really like you to, kind of, persuade me otherwise. In the end, do you not agree that it just comes down to the RMD? The RMD says, I need this guy. If there's enough money to pay for him within the contract -

K SMITH: Yeah.

L JONSON: - a referrals committee are going to say yes.

K SMITH: Well, I think there is a discussion beyond that in the appointment of agents.

L JONSON: Okay.

K SMITH: I mean, the appointment of agents, and I'm not sure that I was heavily involved in the appointment of any, you know -

L JONSON: Right, okay.

K SMITH: - through that process. It's not something that happens very often.

L JONSON: Right.

K SMITH: But I think there would be more to it than that. I mean, you need to talk to, sort of, some of the guys that were involved in that process.

L JONSON: Mm-hmm.

K SMITH: I mean, in my limited period on South Africa it was what it was and the arrangements were in place etc.

L JONSON: Yeah, I think that's all the, all the agents -

K SMITH: That's true, yeah.

L JONSON: - had gone so -

K SMITH: Yeah.

L JONSON: Is it fair to say that you were not present at any referrals committee meetings when agents were appointed?

K SMITH: I don't know. I mean, I can't, at the top of my head I can't categorically say that that was the case. I may have been involved but I mean to say, it's some time ago and I don't know what appointments were made during that period. But my expectation was that there is more diligence done in the appointment of agents at that stage, and the referrals process was the annual, sort of, health check. I mean, however robust or resilient you think it is -

L JONSON: Mm-hmm.

K SMITH: - and you rely on the, you know, on the RMDs and they change through time as well. I mean, you know, it's not one guy in any particular post for years who could run through this process. I think most people moved around, you know? So, I mean, whether the, sort of, checks and balance are perfect or even adequate, I mean, I can't, you know, comment on but, you know, I mean, from my limited involvement, you know, I felt a

comfort factor that there was a lot going on here -

L JONSON: Mm-hmm.

K SMITH: - to try and, sort of, manage that, sort of, process in a reasonable way. And certainly, you know, in, I mean as I say, in South Africa through the negotiation process I felt that that was the case.

L JONSON: Okay.

G MURPHY: Attendance at referral committee meetings.

K SMITH: Yeah.

G MURPHY: Was that a three-line whip? Did people, if you were a member, did you have to be there, or were there reasons that would preclude you from attending those meetings?

K SMITH: It wasn't a three-line whip.

G MURPHY: It wasn't?

K SMITH: No.

G MURPHY: I mean -

K SMITH: Because there are a couple that you can see I wasn't there.

G MURPHY: Absolutely.

K SMITH: Yeah.

G MURPHY: And that's what made me, made me think.

K SMITH: I, I mean, I had a lot of other things, you know, on at this time and this piece of it was only one of those things so I didn't attend all the referral committees. I can't remember attending many actually -

G MURPHY: Right.

K SMITH: - in the period that I was in that role.

G MURPHY: Do you know if there was a policy in place that said, you know, two or three needed to be present or anything like that before a meeting could go ahead?

K SMITH: I can't specifically say that.

G MURPHY: Right.

K SMITH: I mean it would surprise me if there wasn't some sort of, quorum, you know, process but I can't specifically confirm that that was the case.

G MURPHY: No. I mean, we've seen limited documentation that's specifically got your name or your signature on -

K SMITH: Yeah.

G MURPHY: - when it comes to renewals, amendments -

K SMITH: Yeah.

G MURPHY: - that type of thing, and appointments.

K SMITH: Yeah.

G MURPHY: But looking through your period, the period that you've actually been involved in the South African project, I'll show you this document.

K SMITH: Sure, yeah.

G MURPHY: It's, it's, in fact I'll get up and just come around the table. Just for the benefit of the tape, it's a schedule that, that we've produced which has got key milestones on it -

K SMITH: ok.

G MURPHY: - as far as we're concerned and we're trying to make sense of what's going on here.

K SMITH: Okay.

G MURPHY: And we've got the names of the agents across the top -

K SMITH: Okay.

G MURPHY: - and in red are entries that show something happening -

K SMITH: Okay.

G MURPHY: - to various agreements.

K SMITH: Okay.

G MURPHY: And I think it was around about March 1998 you arrived?

K SMITH: Yeah.

G MURPHY: Yeah. So you can see here from Kayswell we've got some form of amendment going on.

K SMITH: Yeah.

G MURPHY: On FTNSA there is an amendment to their agreement that's, sort of, a month -

K SMITH: Yeah.

G MURPHY: - three weeks later. And you can see there's various things happening to the Brookland, Kayswell -

K SMITH: Yeah.

G MURPHY: - Osprey, Zomita and so on and so forth. Now, am I right in saying every time one of those amendments took place, there needed to be some form of activity within the referrals committee, either a full referrals committee meeting or an ex-committee process?

K SMITH: I would believe so in terms of changing the agreements. Again, I can't be absolutely specific on that but that would be my belief.



G MURPHY: So, so would it right then to say that if we haven't got documentation with your name on -

K SMITH: Yeah.

G MURPHY: - or your signature -

K SMITH: Yeah.

G MURPHY: - that you, simply, wasn't there? Or weren't included in the ex-committee procedure?

K SMITH: It could be, yeah.

L JONSON: I mean, would they always include you? Because, sorry, forgive me -

K SMITH: Yeah.

L JONSON: - I'm afraid I've forgotten what you said earlier. Were you there in your capacity as boss of all the RMDs, or were you head, were you there as a quasi South African RMD even though actually Niall Irving did more of that type of job on the ground?

K SMITH: No, I was there as boss of -

L JONSON: Of the others?

K SMITH: Yeah, of the others.

L JONSON: Right.

K SMITH: So, I mean, when I took that job as Group Managing Director New Business -

L JONSON: Mm-hmm.

K SMITH: - I would join, you know, the referrals committee. I mean, I can't remember when I joined and, you know, how many of those meetings I actually attended, but I would join at that time in that role.

G MURPHY: Am I right in saying that the RMDs would be sponsoring, they would put the proposals to the

committee -

K SMITH: Yeah.

G MURPHY: - and they would have to answer questions from the main committee members?

K SMITH: Yeah.

G MURPHY: Is that how it would work?

K SMITH: Broadly.

G MURPHY: Yeah.

L JONSON: So, if it was a South African agent -

K SMITH: Yeah.

L JONSON: - Niall Irving would come and say, Alan Curtis, we need, I'm going to try and reduce him?

K SMITH: Up until, I mean, up until February-March it would be Allan Macdonald -

L JONSON: Right.

K SMITH: - in 1999.

L JONSON: Okay.

K SMITH: During that period in June-July where we wanted to do the tranching -

L JONSON: Mm-hmm.

K SMITH: - I mean, I asked Niall to go out and see what he could get done with those agreements and to make sure that we weren't actually getting ourselves into liabilities that, you know, we couldn't fulfil. So, I did ask him to do that. And there are a number of changes that come through as a result of that and I would support that -

L JONSON: Mm-hmm.

K SMITH: - you know, with Niall at the referrals committee. I mean, you know, if I was

there, you know, I would be saying to the committee that I've asked him to go do these things because of what we're doing on the South African programme.

L JONSON: And I presume, tell me if I'm wrong, but the decisions to lower consultancy fees probably don't need that much discussion?

K SMITH: No.

L JONSON: No. Okay. I mean, the tranching procedure, you say you tasked Niall to go and firstly see what the position was with Hugh Dickinson and whether -

K SMITH: Yeah.

L JONSON: - or not you'd be liable, but, I mean, that's one aspect of it, isn't it? There's a second aspect of bringing down the fees because it was going to make your project more affordable to the South Africans.

K SMITH: Yeah.

L JONSON: Was that something you had in mind as well as the tranching?

K SMITH: Yeah. Where we could.

L JONSON: Okay.

K SMITH: I mean, I'd, you know, I mean, I had no, sort of, detailed knowledge of those, those folks and what they'd done and where they were involved in the programme, so I asked Niall to look where he could, with Hugh, to see whether, you know, some of those commitments could be reduced. And I think he got, I mean, he was, sort of, partially successful in doing a little bit on

that during that period.

G MURPHY:

Mm-hmm.

L JONSON:

One question I forgot to ask you about Basil Hersov was, do you know about any gripes or, I wouldn't go as far as to say potential, not, it was not -

G MURPHY:

Disputes?

L JONSON:

- yeah, disputes, probably, that Basil Hersov had with the company?

K SMITH:

I can't recollect that.

L JONSON:

Okay.

K SMITH:

I mean, when was that?

L JONSON:

I don't know when the dispute was but it would have been in the 1990s, I think.

K SMITH:

I can't recollect that.

L JONSON:

Okay.

K SMITH:

I mean, no, I can't.

G MURPHY:

I just want to go back to Allan Macdonald leaving.

K SMITH:

Yeah.

G MURPHY:

I listened to what you said and, again, I just want to make sure I've got this right in my own mind. Was it a case that Allan Macdonald was invited to leave or was he sacked, or was it eventually, you know, a mutual...?

K SMITH:

It turned into, I don't, as I say, I don't know what the separation arrangements turned out to be but, I mean, the conversation that I had with Allan was that Allan, I mean, you know, we, sort of, had all this stuff, I mean, quite a lot of correspondence around this as well and you can

see Allan is, sort of, quite prodigious, you know, in, on correspondence, and I basically said to him, 'Look, Allan, this is not going to work out. We're not going to meet your aspirations and, therefore, we should sit down and discuss, you know -

G MURPHY: Right.

K SMITH: - 'whether we should actually part company'. At that stage I passed him over to, to John Weston and to Terry Morgan who was the HR guy -

G MURPHY: Yeah.

K SMITH: I was never involved in that process again -

L JONSON: Okay.

K SMITH: - so how it actually -

G MURPHY: All right.

K SMITH: - turned out -

L JONSON: Yeah.

K SMITH: - I don't know, but because I was his boss -

G MURPHY: Yeah.

K SMITH: - I did have that, sort of, initial -

L JONSON: Mm-hmm.

K SMITH: - sort of, conversation with him which wasn't, you know, a, sort of, pleasant experience, you know.

L JONSON: Mm-hmm.

K SMITH: But I do not know how that worked out in terms of -

L JONSON: Okay.

K SMITH: - Allan actually leaving the company.

G MURPHY: Had you worked with Allan before?

K SMITH: I had. I'd known, well not, sort of, Allan was

at Prestwick responsible for the, the regional jet, I mean, the Jetstream turboprop sort of business up there. We used to go on a, sort of -

L JONSON: Was that a 125?

K SMITH: No, it was the Jetstream 131, 141, 132 at Prestwick and I had, sort of, met Allan on a BAE programme. We used to have, sort of, a strategic leaders programme as they called it at INSEAD where we went for a month and spent time there. And, yeah, I got friendly with Allan, you know, during that period and, you know, our, sort of, family I think once we, sort of, stayed up in Troon, sort of, somewhere close to him and, sort of, spent a bit of time with him.

G MURPHY: Mm-hmm.

K SMITH: But I hadn't actually worked, you know, with Allan on, sort of, programmes etc. He was on the commercial side of the business, I was on the military side, the only time we really came together from a working point of view was around this programme.

L JONSON: Can I ask, when you became, you left the job that you didn't like, the strategic job, I think you put it -

K SMITH: Yeah.

L JONSON: - with Dick Evans and you moved to the new business job, at that point were you hoping, or were you expecting to progress up within BAE or had you made a decision that, actually, you wanted to leave by that point?

K SMITH: I'd made a decision. I had a discussion, when they asked me, well, you didn't get asked, you know, in those days. This is the job that you're going to do, you know, under the new organisation with, with John Weston and I said I'd like to leave the company. I mean, you know, I will resign from -

L JONSON: This is in 1998?

K SMITH: This is in 1998. I'll resign from the company, I mean, that's not what I want to do, and was persuaded at that time by Dick to stay for a year. And, I mean, the plan was that I would do the job for a year and then he would, sort of, give me some help, you know, to find, sort of, something else to do. Well, I mean, it didn't work out like that. It was, you know what it's like, it's, sort of, well, we've got him back on stream again, we can leave him alone, you know, he's going to be okay. And it wasn't like that. I mean, I was unhappy at that point in time, you know, or a number of reasons and I'd decided that I wanted to leave. So, therefore, in May of 1999 which was a year later I'd, sort of, formally resigned which, I mean, did not go down, sort of, particularly well. So, I mean, I'd already made my mind up, I'd been very open, you know, with BAE, so it's through this sort of period, you know, I'm sort of half in, sort of half out, you know, in terms of the organisation. I did my job to the best of my ability and I did work hard on the

South African programme -

L JONSON:

Okay.

K SMITH:

- you know, through that period because I felt it was, it was important. But I was, sort of, already on my way out of the company.

L JONSON:

Okay, thank you.

G MURPHY:

Okay. Were you ever aware at any time that agents may have been offering to pay bribes to government officials or public servants within South Africa to help win the contract?

K SMITH:

No.

G MURPHY:

You never heard whispers, rumours?

K SMITH:

Well, I mean, when I came into it, you know, as I say, you know, it was, sort of, well advanced, you know, by that stage. I mean, there were whispers and rumours around South Africa and they've continued, as you know. I mean, the South African government did, did their own investigation and, you know, that sort of stuff was around.

G MURPHY:

Yeah. Did anybody ever come to you and say, listen, we might have a problem with this particular agent?

K SMITH:

No.

G MURPHY:

we're having trouble keeping the reign on these people?

K SMITH:

No, they didn't. That, you know, that did not happen through that, through that period.

L JONSON:

When you came on board did you know about Joe Modise's intervention in respect of the Hawk to remove pricing as one of the, remove costs as



one of the elements just to see how it would fare against its competitors?

K SMITH: Not specifically that point, no.

L JONSON: When did you find out about that?

K SMITH: I mean, I can't remember ever, sort of, you know, specifically picking up that point. I mean, I knew they'd had problems with, with the Hawk. The Hawk is never going to win anything on price.

L JONSON: No.

K SMITH: I mean, it's a completely different aeroplane -

L JONSON: Mm-hmm.

K SMITH: - and you've done your sort of work that, sort of, shows you that. So, I wasn't aware of that particular point, that price had been removed as a consideration through that process, no. I mean, for me, I mean, it was -

L JONSON: You didn't know that Modise favoured the Hawk over any of the others?

K SMITH: No, not from, no.

L JONSON: Okay.

K SMITH: I mean, I thought, you know, people like the aircraft. I mean, it's a good aeroplane, you know, it's, it, sort of, won the competition, you know, all over the world. I mean, I like the aeroplane. I mean, I spent a bit of time, sort of, working with it. It is a really good aeroplane so it does not surprise me that people like it but I -

L JONSON: Because it's whether they need it -

K SMITH: Yeah, well, I mean, the other point is, well,

you know, you can ask that question, I mean -

L JONSON: No, we could be here all day.

K SMITH: Yeah. In other words, you are, aren't you, I mean, you go through that process. It is an aeroplane with a much more capability than its competitor. And it had a very strong South African industrial involvement that went on with it which the other guys couldn't do because most of their equipment is simulated rather than being real. And it did produce a South African system that could be exported on to the export market. I mean, you see from the papers here that, you know, I, we did say that we would look to market. You know, that aeroplane internationally and with Denel, they were involved in the programme.

L JONSON: Did that happen?

K SMITH: I don't know, to be honest. I really don't. I, when I was there I expected that it would -

L JONSON: Yeah.

K SMITH: - but I'm not sure what actually happened. And I was not aware of that, sort of, specific point, you know, an overt -

L JONSON: Yeah.

K SMITH: - sort of, decision to say that we're going to stop doing... or we're not going to look at price.

G MURPHY: Did there come a time in relation to NIP and DIP that ideas, packages had been identified, this is what we're going to include, this is what we're going to do for the South Africans in relation to NIP and DIP? Was there, sort of,

was that laid out in a document anywhere,  
exactly what these NIP and DIP packages were  
going to be?

K SMITH: The ones that had been identified, it was, we,  
and I think there's some correspondence in here  
that talks about a number of programmes that we  
would launch -

G MURPHY: Unfortunately it refers to an attachment and we  
haven't got the attachment.

K SMITH: You don't have the attachment. Okay. It was  
and, I mean, essentially the strength of the  
Swedish offering was on the NIP. I mean, and it  
was, as I mentioned, you know, companies like  
ABB, Volvo, Scania and others you know, being,  
sort of, present in South Africa and prepared  
to, sort of, extend their presence,  
their investment and exports was a key feature  
for that. On the Hawk it wasn't. It was the  
defence industrial participation which was  
really the, sort of,  
South African avionic system, the work with  
Denel. And also the proposals that had been  
made for BAE to take a share-holding in Denel as  
an investment. You'll see in the document  
there's a sum identified, it's about  
\$200 million or something as being the  
assessment of that. But also went along with  
that was a technology transfer arrangement which  
was also valued so that the South Africans, I  
mean, the value of the technology that was  
transferred to allow them to participate in the

programme was valued as  
defence industrial participation.

G MURPHY: So what did that, what did that mean, in fact?  
Was that transfer of what, equipment, machinery  
to allow them to -

K SMITH: No, it was mostly intellectual property. So, it  
was, you know, the capability. I mean, remember  
South Africa had been isolated for a long time.

G MURPHY: Yeah.

K SMITH: You know, the defence industry had been stood on  
its own, sort of, two feet trying to, you know,  
to survive really in that sort of environment so  
it did not have access to, sort of,  
modern manufacturing technologies in  
some instances.

G MURPHY: Okay.

K SMITH: And also, I mean, it had integrated systems but  
complex, sort of, software and computing systems  
didn't have the, sort of, capability there. And  
you'll also see there were  
some engine programmes where, you know, it  
hadn't, sort of, got the capability. So, it was  
really know-how and engineering that was being  
transferred and valued to allow them to do that  
work in South Africa.

G MURPHY: And how was that to take place? Was that, sort  
of, moving BAE staff into South Africa to work  
with South African industrialists?

K SMITH: There was some of that and there were some, sort  
of, South Africans in the UK to understand what  
was going on there. So there was a very

detailed -

G MURPHY:

Yeah.

K SMITH:

- you know, transfer programme with folks involved.

G MURPHY:

And was that quantifiable at various stages?

K SMITH:

In terms of?

G MURPHY:

The value.

K SMITH:

It was, I mean, it was, you know, we had to make a formal

defence industrial participation submission which included the packages that would be transferred and the technology transfer that would go on and the value of

that technology transfer. And it also, sort of, made some assessment of the value of exports that may be generated, you know -

G MURPHY:

Yeah.

K SMITH:

- from having those, sort of, changes. So, it was very detailed -

G MURPHY:

Mm-hmm.

K SMITH:

- and on the national industrial participation there were a number of projects that had been, had been identified that, I mean, were or would have been launched, you know, to, so, yeah. Because you had to get DTI approval for all those projects -

G MURPHY:

Mm-hmm.

K SMITH:

- for them to count and if you didn't put the submissions in then, you know, you had no, sort of, record that they were actually going to count against the commitment that you had.

G MURPHY: Yeah.

K SMITH: And as you can see, I mean, you know, there's a performance bond there which ended up being a proportion of the contract price rather than the NIP + DIP value which was what was being, you know, originally looked at. So, it was a very serious -

G MURPHY: Yeah.

K SMITH: - part of looking to make this thing work. There's a lot to it, you know, a lot of complexity, a lot of different, sort of, submissions and a process through, sort of, DTI particularly that was not very robust. I mean, they hadn't done it before and also to, to find a way of assessing the value of these things -

L JONSON: Mm-hmm.

K SMITH: - approving them etc., there was a lot to do that certainly we had not learnt about.

G MURPHY: Yeah.

K SMITH: But in terms of a lot of the detail as to the packages etc. that had been identified.

G MURPHY: So, you've got all your BAE teams working -

K SMITH: Yeah.

G MURPHY: - in this complex area -

K SMITH: Yeah.

G MURPHY: - and that is gradually being pulled together, and then what, presented to the negotiation team -

K SMITH: Yeah.

G MURPHY: - of South Africans?

K SMITH: Yeah.

G MURPHY: And then what, they would take it back and deal with their various departments, is this acceptable? Do we want to change this? Is that how it...

K SMITH: Well, the departments were all represented so the DTI, if you remember, the negotiation committee had a Finance Ministry -

G MURPHY: Yeah.

K SMITH: - the DTI. I mean, they all had their pet projects -

G MURPHY: Yeah, and they had the knowledge to be able to deal with that at meetings, did they?

K SMITH: They had staffed it back within the departments but there was, I mean, it was like, you know, everybody was there at senior level -

G MURPHY: Yeah.

K SMITH: - who were, who needed to be, you know, involved in, with the departmental staff to assess the proposals that you'd put in.

G MURPHY: Okay. Thank you.

K SMITH: Okay.

G MURPHY: Any further questions? Is there anything, obviously we can put another tape in if there is anything to want to add, clarify.

K SMITH: No, I think I'm, I think I'm okay -

G MURPHY: You're sure, yeah?

K SMITH: - with the discussion that we've had.

L JONSON: Yeah.

G MURPHY: Okay.

K SMITH: I mean, it's been quite a long day so I can't remember everything -

L JONSON: No.

K SMITH: - but, I mean, I feel fine actually. So, thank you.

G MURPHY: Caroline, is there anything you want to add?

C HALLIDAY: No, fine.

G MURPHY: Right.

B SMITHWHITE: Okay. This is the end of tape six of the Section 2 interview with Sir Kevin Smith, and the time by my watch is 15.42.

**(End of Interview)**