

TRANSCRIPT OF INTERVIEW HELD AT TODS MURRAY LLP, SOLICITORS,
EDINBURGH QUAY, 133 FOUNTAINBRIDGE ROAD, EDINBURGH EH3 9AG ON
TUESDAY, 14TH AUGUST 2007.

CASE REFERENCE RLI02

TAPE 1 OF A BATCH OF 14

PERSON BEING INTERVIEWED: MR ALLAN MCDONALD

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MR PETER PATERSON	-	SOLICITOR

B SMITHWHITE: This interview is being tape recorded. The time by my watch is 10.32 on 14th August 2007. We are in Meeting Room 8 at Tods Murray, Edinburgh Quay, 133 Fountainbridge, Edinburgh EH3 9AG. I am Brenda Smithwhite, investigator, and am assisting in investigating the affairs of BAE Systems plc and Red Diamond Trading Limited. I am interviewing Mr Allan McDonald, who is accompanied by his solicitor, Mr Peter Paterson. I am going to ask them to identify themselves by giving us their full names, addresses and date of birth to assist in voice identification.

P PATERSON: My name is Peter Paterson. I am a partner in

RLI286

Corrected Transcript

Tods Murray. Do you want my professional address?

B SMITHWITE: That's fine.

P PATERSON: My professional address is as per Tods Murray, 133 Fountainbridge, Edinburgh Quay. And that's Edinburgh. My date of birth is 11th October 1954.

A MCDONALD: My name is Allan McDonald. I reside at 29 Quai des Bergues in Geneva, Switzerland and I was born on 25th November 1951.

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

G MURPHY: Yes. Gary Murphy, investigator with the Serious Fraud Office.

L JONSON: Lydia Jonson, independent barrister contracted to the Serious Fraud Office.

B SMITHWITE: Can you please confirm, Mr McDonald, that you have received a copy of the Section 2 Notice, dated 3rd August 2007 in respect of BAE Systems plc and Red Diamond Trading Limited?

A MCDONALD: Yes, I have.

B SMITHWITE: Did you understand that notice?

A MCDONALD: Yes. As it was explained to me. Yes, I understood the notice.

B SMITHWITE: Thank you. Mr McDonald, during this interview, you will be asked to provide information to assist in this investigation into serious or complex fraud. You've been required to answer questions or furnish information under Section 2 of the Criminal Justice Act 1987. You may be prosecuted if, without reasonable excuse, you

fail to comply with this requirement or if you knowingly or recklessly make a statement which is false or misleading in a material particular. Any statement you make under this requirement may only be used in evidence against you in a prosecution for failing to answer questions or for giving false or misleading information. If you are prosecuted in respect of another offence, then any statement you make in response to this requirement will not be used against you by the prosecution unless you yourself introduce it into the proceedings.

I would like to hand you a guidance sheet, which has information about this interview. If you could take a few minutes to read it.

A MCDONALD: Yes. Thank you.

B SMITHWHITE: Right. If there are no further questions, we can proceed.

G MURPHY: Okay. I think it would be good to start off, Mr McDonald, if I just explain how - what we are interested in -

A MCDONALD: Right.

G MURPHY: And how we're going to break the interview down. I think you're already aware that we're investigating allegations that corrupt payments were made to South African public officials by agents to enable BAE Systems plc to secure the Hawk/Gripen contract. That's the contract we're interested in and we're aware that that contract formed one part of the overall strategic defence procurement package at that time.

Now, we want to talk to you today about that contract, which was eventually signed between the South African Government and BAE. We're going to be very interested in particular in your involvement and knowledge of how that contract was won. We're going to be interested in your first-hand knowledge of the involvement of other BAE personnel in that contract. We're interested in your knowledge and involvement in the appointment of advisers - sometimes called consultants, sometimes called agents - and your first-hand knowledge of the involvement of others in that process. And we may - we will want to ask you towards the end about another agent in another jurisdiction, and that's Tanzania.

A MCDONALD:

Yes.

G MURPHY:

But that will only be very brief and the document, you already have in your pack, anyway. Now, we're going to be as specific as we can be in our questions, but the idea really is for us to obtain the full extent of your knowledge in relation to this matter. Therefore, we would ask you to consider - to answer as fully as possible, and it's probably worth mentioning now that you will see various of the three of us scribbling away taking notes. So do not let that put you off.

The interview itself is going to basically - we're going to work in round about five stages. We're going to start off looking very briefly at

pre-1994. Now, I appreciate that you didn't arrive until 1994. I just want to try and get a feel for what was going on that time.

A MCDONALD: Yes.

G MURPHY: We're then going to look at the period from the defence review that was conducted through to the ARMSCOR Request For Information. Then we're going to look at the bidding process up until preferred bidder status was achieved.

A MCDONALD: Yes.

G MURPHY: And then the events that occurred leading up to the contract being signed and, again, I appreciate that you might not have been there. Well, you weren't there when the contract was signed. And then we're going to go through each of the agents in a bit more detail. So, it's a lot of background first and then we'll get into the specific agents.

A MCDONALD: Right.

G MURPHY: What I'd like to do first of all, though, is just really explore with you your overall CV. Could you just give us - I just want to try and build up a picture in my own mind of your business acumen. What you've done, who you've worked for, and some rough dates. That's both prior to BAE and since.

A MCDONALD: Yes. Well, I started off on an apprenticeship with Scottish Aviation. So, really, I'm full-time aerospace, 28 years with British Aerospace or its predecessor companies.

G MURPHY: Right.

A MCDONALD: So, I started off a technician apprenticeship with Scottish Aviation that then led me to be selected to do the commercial apprenticeship programme in conjunction. So every five years, I mentioned earlier, Scottish aviation would pick a lead apprentice to do both commercial and technical and so - and that's all a five-year apprenticeship programme and during that time I did HND business studies, HND in engineering and was, I think, fairly well regarded within Scottish Aviation. So much so that I was appointed a Contracts Engineer as soon as I finished my apprenticeship, which was an unusual step, but really that was a big customer interface and I dealt with Lockheed-Georgia on the supply of C130 panels to - well, we, British Aerospace, or Scottish Aviation made the C130 panels for Lockheed-Georgia as part of the offset programme for the RAF contract of buying C130.

So, I was very much involved from my - the reason I am making this point, I was very much involved in my early development in the process of contract - the contracting process with an international American firm whose own contracts were Government supplied.

G MURPHY: Okay.

A MCDONALD: So we used to have the US Government coming in and doing its audit in through Scottish Aviation and I used to assist in that whole audit process. So, very early on in my life, I became

aware of the special relationship that existed between aerospace companies and the Ministries of Defence of various countries.

G MURPHY: Right.

A MCDONALD: And because we were part of the offset of the RAF programme, we used to separate work for the RAF on the C130, so I get exposed on that.

G MURPHY: Okay. And what period of time are we talking about here?

A MCDONALD: Well, that would be the, that would be the early 1970s. The early 1970s.

G MURPHY: Right.

A MCDONALD: I then left Scottish Aviation. Robert Lee International, which is a name I'm sure your familiar with - but me for a different reason - put an advert in the *Sunday Times*, I think, about 1977. This was, they were talking about nationalisation at that date, but they hadn't nationalised the industry. So, Scottish Aviation was still separate. And Robert Lee International put an advert out looking for contracts engineers for an international aerospace company. So, I applied and then I found out it was British Aerospace, Warton. I was interviewed and went down there and was cleared to work on the Tornado. They put me through the whole Ministry of Defence audit to clear me to work on the Tornado contract and I worked for a guy at that stage called George Warkup, who was in charge of that. This was the, the development of the Tornado aircraft

wasn't even flying in those days. So, and I was put on as a contracts engineer to work on those and started dealing with ESAMS, which was the electronic firm which was very much Edinburgh based. So, I started working with ESAMS on the electronic development of the electronic phase of the training. And I was only there about nine months when Peter Growcock, who was the Commercial Director, called me into the office, noticed that I had done with my time at Scottish Aviation, besides my Lockheed work, that I had done a liquidated damages claim for Bulldog in Jordan. So, at 24, I had been to Jordan, had done a liquidated damages claim.

They pointed out that they had a big Strikemaster liquidated damages claim from the Saudis and would I go out to Saudi Arabia? This had been outstanding; it was causing a lot of headache, and would I go out to Saudi Arabia and work on that settlement?

Well, it took me about six months and I settled it and came back. Glad to come back. You know, I was only supposed to go out for a month - it was six months. It was torture, to be perfectly honest. It was the most, you know, challenging experience of my life. It was like, but always, you know, you're deep, deep depression because you're away from home and in the desert, you know and it was. I often wondered what I was doing there, but I thought you have to serve your apprenticeship.

So, I came back and then they asked me to go out for, you know, at least two more years, if not five years in total. I told you earlier that I put a salary I thought was way, way above they would ever consider, plus the demand that my wife would go with me - because nobody could get their wives out - and they agreed to both. So, I went out there and effectively did about five years in Saudi Arabia.

P PATERSON: That's the summer of 1977?

A MCDONALD: That's the summer of 1977, yes.

G MURPHY: Right.

P PATERSON: The wedding.

A MCDONALD: The wedding, yes. So.

G MURPHY: Right.

A MCDONALD: I came home to get married. I was out there for six months, came home to get married and then took Eileen back with me. I was out there -

G MURPHY: Were you involved in all the negotiations in -

A MCDONALD: No. Al Yamamah 1 was done by that time, and this was the execution of it. This was the supply of the, it was the delivery of the Lightning and the Strikemaster.

G MURPHY: Okay.

A MCDONALD: Through that process. But there was the - it was the, we had about 3,000 employees out there, but there was about eight of us were Warton employees, full-time British Aerospace employees. And the guy that ran the show in those days was a guy called Growcock, Peter Growcock, and the mastermind - the man that had

the relationships with the Saudis - would be Alec Atkin, both of whom are now dead. Growcock suffered a brain haemorrhage while I was there and it was at that stage that Dick Evans was introduced to the proceedings. He'd never been involved in a Saudi programme at that stage, but that's where he was introduced to the proceedings. And that's how I got to know him. Because when he first came to Saudi Arabia, I met him coming off the aircraft and I took him round Riyadh because I had been there about a year and a half by that time. Was a bachelor - was a bachelor in the sense that I think Eileen was at home with our first child at that stage, so I was free to run him around and I used to take him round and introduce him to the various people.

G MURPHY:

Okay. Moving on from Saudi Arabia -

A MCDONALD:

I came out in 1982 and came back to British Aerospace. Prestwick had managed to survive the nationalisation and come out. Because there was closure - there was talk about closure. But George Younger was our Member of Parliament at that stage - he wasn't Secretary of State for Defence - but a big advocate for Scottish Aviation. And he used his good offices to make sure that we became a part of the nationalisation process.

If you look at the Act, when the Act for nationalisation was first introduced, Shorts of Belfast and Scottish Aviation were excluded on

the basis, I think, they were prepared to let those die a natural death as aviation companies. George Younger used his good offices to force Scottish Aviation into the Nationalisation Act. So, I think we were described by - if you can imagine, it was like the Hawker Siddeley people and the British Aerospace people - the British Aircraft Corporation - became the two teams that really formed the nationalised company. And we became known as an irritating pimple, and that was Prestwick.

So, from 1982 effectively 'til I went down in 1994, I was at Prestwick. And to be fair, I think, I became known as the champion of Prestwick because I came through the ranks. I went there as Commercial Manager, coming out of Saudi, became Commercial Director, became Operations Director, became General Manager and became Managing Director of all of regional aircraft, including the 146 and the ATP, in that period.

G MURPHY: Right.

A MCDONALD: So, I was, I think I was the youngest General Manager they ever appointed.

G MURPHY: I've seen Jetstream fitting in somewhere. Where does Jetstream fit in.

A MCDONALD: Well, Jetstream is a turboprop aircraft used in commercial airlines and as soon as - we were always, we were competing with the Americans - this is commercial aircraft - we were competing with the Americans and they had really not taken

a very active interest in South Africa, but once we realised the apartheid period was over, our team went in there lobbying to place Jetstreams. And we placed Jetstreams - I placed Jetstreams with South Africa Airlink into - which is part, which is a small private airline in South Africa. So, the first person to do business with South Africa after the apartheid period was me as the Managing Director of the commercial aircraft team.

G MURPHY: Right. Was Jetstream a subsidiary company of BAE? Was that company or -

A MCDONALD: Yes. No, what British Aerospace had was British Aerospace was really like two big companies. One was the - well, there was three there, but - the military aircraft company and there was the dynamic side of that - so that's the two. And then there was the commercial aircraft company, which had interests in Airbus, corporate jets 125 and the whole fleet of regional aircraft - 146, the advanced turboprop and Jetstream.

G MURPHY: Right.

A MCDONALD: Now, we used the name 'Jetstream' to give it a branding of its own. So, for me, it was a branding, but it was still very much an integral part of Commercial Aircraft. And Commercial Aircraft was run quite separately from Military Aircraft. I mean in terms of the reporting structure and, you know, we all had our own Chief Exec, we all had our own board. And I was on the board. By 1994, I was on the

board of Commercial Aircraft, which wasn't the board of the company - I mean, British Aerospace - but was the board of Commercial. And I was probably, you know, probably at that time, about 1994, probably the - because there were, we had brought McKinsey in who had said over a long term you've got to get out of commercial aircraft and I was part of that review. So, in 1994, I knew there was a 10-year plan to exit commercial aircraft and become a military defence company and to. The only thing they hadn't decided that day was to sell their share in Airbus, which they've done subsequently. But that was the, that was when that was all resolved and I was part of that review process. So, I think I had grown from a commercial technician, engineer, that used to work on the shop floor. I got all involved in aircraft financing because we couldn't sell these aircraft because the airlines were so poor they couldn't afford to buy them, so we had to do aircraft financing, with us underwriting the leases for the aircraft. So, I became a bit of an aircraft, you know, I became more like a financial engineer eventually, rather than a real engineer.

G MURPHY:

Yes.

A MCDONALD:

And that was all. And I think I was well respected in Aerospace for having a deep knowledge about commercial activities, but commercial activities in the sense we were

competing with the Americans - Beech and Fairchild - but hard-nosed commercialism, no agents, no middle of the road facilities. It was just, you were competitive or you lost. And so, coming up with the financial engineering through the Airbus leases and putting the leases over 25 years gave people a lot of comfort. So, my - when I had been involved in Saudi Arabia, I had an inkling of how military aircraft operated commercially. When I went to Commercial Aircraft, it was very much dog eat dog, you're to fight and you're to win business cases by your hard-nosed commercialism, not by any other devices. It was either you put the best price in with the best product, with the best customer support, or you didn't win the business. So, I was a, you know, in, I think after Sir Charles Masefield, I probably sold more commercial aircraft than anyone else and so built up a reputation of being able to deliver sales.

For four years, they tried to tempt me down to Headquarters and I always resisted. I loved what I was doing. I loved being based at Prestwick. I loved working with the people at Prestwick. There was the people at Hatfield; there was the people at Manchester, Filt... Manchester; and some of the people at Chester were part of Commercial Aircraft. And I was the leader.

I started off - what happened, when Tony Saint

was boss of Commercial Aircraft, he made Headquarters Hatfield; when Sir Charles Masefield became boss of Commercial Aircraft, he made Headquarters Manchester. So, when I became boss, I made Headquarters Prestwick, so I didn't have to move home. But that didn't suit British Aerospace. They wanted the barons, if you like, the barons that run the businesses based at Headquarters and I was under constant request to move south, and I constantly refused because I was, I was... But it was the pressure of the people that were reporting under me, they came to me and said as long as you stay here we never get promoted to the big jobs. And for that was the reason I eventually moved, which was, to me, the wrong reason I eventually decided. But, anyway, I moved in 1978 - no, sorry - no, that would be -

P PATERSON: It would be 1994.

G MURPHY: 1994.

A MCDONALD: 1994. Sorry, 1994. I think I'm going back to the first time I moved to Warton. No, no. I moved in 1994 down south. I did six months still running Commercial Aircraft and handing over. Jetstream Aircraft, at that stage, would have been registered as a separate company and I was its Managing Director, but I was also on the board of Airlines Division, which was all the airline companies, and I was also on the board of Commercial Aircraft. So, it was a kind of complex, so it gave me an overview of everything

we did - Airbus, as well. Everything we did. The redundancy programme, affecting all the factories. I was involved in that. And that was my first exposure to Mike Turner, because he was brought in as the Chief Executive of Commercial Aircraft, I think about 1992. He came in as the Chief Executive.

G MURPHY: In 1994, when you moved down to Warton -

A MCDONALD: Yes.

G MURPHY: What section, what department did you move into then?

A MCDONALD: Well, what happened was that there were - I actually moved down on a brief from Dick Evans, who was the Chief Executive to come up with a - they wanted to establish an international marketing organisation, which I see you sometimes refer to as IMSO. Well, I was the person that came up with the concept of IMSO. I was engaged to come down and work for six months on how we should form our international marketing organisation.

When it came up with the five Managing Directors for each of the regions, you see, I introduced the primo centre pares process, whereas up to that, the barons have ruled supreme. If I was Managing Director of a business, I ruled supreme. So, if I could go into China and I didn't like the Chinese and upset them, I had no accountability because I could pull myself out of China, walk away. And I said, well, wait a minute. The guys who worked six, seven years to

create an environment in China can't be overruled by a baron coming in. Having been a baron myself, I knew the damage you could do. But also having been someone who had to go out there and market the aircraft, I realised the criticality of being good at marketing and selling.

So, my concept was the premise that the Managing Directors of the region had the same status as the Managing Director of the businesses. So, if you were in charge of British Aerospace Warton, with say 15,000 people and I had 200 people as a Managing Director of Asia and Africa, in status within the company, you and I were equal. And I also encouraged that the Managing Directors of the businesses should be put into the Managing Director posts of the regions, just to demonstrate that point, that being Managing Director of a business - which I was - to become Managing Director of a region was a similar-type job and, indeed, could be seen. And it was first among equals, so when in China, when in South Africa, when in Saudi Arabia, the Managing Director of the region had final call over the Managing Director of the businesses. So, they couldn't come in and ride roughshod over the marketing people.

And that was the concept and I created that, put a paper to Dick Evans to put it to the board and it was accepted. But when I went there, Dick had told me that I was going down there with the

intention of becoming head of the marketing organisation of British Aerospace. That was what I was told. After six months, they told me that although I was very successful - Sir Charles, by that time, had gone to Airbus, so probably the most successful marketing - Sir Charles Masefield, who eventually became Head of Defence Sales had previously been my boss. He was the one guy that took me under his wing from a very early age, so when he was Managing Director of Regional Aircraft, I was, like, his number two and then he put me in to be Managing Director of Regional Aircraft when he left when he moved on to Commercial Aircraft, and when he went on to Airbus, I then took over Commercial. So, I really followed in his footsteps - Sir Charles.

So, when he went to Airbus, we lost - well, he was the best marketing man we had in the company, I think. I think most people would agree with that, but he was. And he went to Airbus, and he only stayed there a short time before he went into DESO and then our paths crossed again. Well, when he left the company to go down to Airbus, they brought me in to come up with the marketing strategy of how we should go about running our businesses and I came up with the five Managing Directors of the region, which meant all products.

You see, like, in the investment banking world, if you're the chairman of Africa and, of Goldman

Sachs, any product that a Goldman Sachs person wants to sell - and they all have their own Managing Directors, whether it's bonds, trusts, whatever - when they come in to South Africa, they fall into a new remit, so you can't have anyone coming in whose an expert in a particular business overriding the expert in the country. But, Aerospace didn't have that process. The baron - whoever ran Commercial Aircraft - could charge into any country he liked, no matter whether we had defence people there, or whatever, they could just ride roughshod if they - and some of them were that brutal, you know.

G MURPHY: When we move on, we're going to go into how marketing was actually structured and how it was set up, but for the time being, I think you took on one of the regional Managing Director roles. Is that right?

A MCDONALD: I was told I was to go down and head up the whole process, but I had to put the structure in place first, which I did and identified all the regions. They then came and Dick said to me that he wanted to have a serious conversation. He said, 'I know you're expecting the top job', which I was. I'd only moved south on that basis, by the way. I'd only agreed to move south -

B SMITHWITE: When you say 'top job', meaning?

A MCDONALD: No, the management, the Director of Marketing for the whole organisation.

B SMITHWITE: Director of Group Marketing?

A MCDONALD: Director of Group Marketing, with the five Managing Directors reporting into him. When I moved from Prestwick, from the regional aircraft top position, down into that job, I expected that after I did my review and my report to be given the top job.

G MURPHY: Right.

A MCDONALD: Dick then took me aside and said that they had considered it very seriously and, whilst the most successful commercial aircraft man still within the company, Sir Charles had gone on in terms, I had no military aircraft experience or dynamics aircraft experience, and because it was really a military company, I would have no credibility if they put me into that position. So, they said to me, 'Well, what position would you like of the five Managing Directors?' And I said I would like America, because I had dealt with Lockheed and this had been my experience, I said. America was the one that British Aerospace saw as a long-term strategic partner, as the way things have gone. And they said, well, they went back and they came back and they said, 'We would like you to do Asia and Africa. It's the most challenging and demanding environment. We'd like you to do Asia and Africa.' Because, you see, I'd been, I sold Jetstream into Japan. First commercial aircraft - other than Boeing, we were the first commercial aircraft company to sell into Japan and I led those deals - the Jetstream plus the

125s. I'd sold 146s into that part of the world - Indonesia. I knew Asia and I'd done the Jetstream deal into South Africa -

G MURPHY: Yes.

A MCDONALD: So, I was seen as someone, I mean, I was - just to put things into context, when I was in Commercial Aircraft, Sir Charles and I were made premier cardholders with British Airways, not because we were the most senior people in the company, but because we were in British Airways top 100 travellers. And I was, for nearly seven years, I was doing something like 200,000, at least, miles a year with British Airways, flying everywhere, in the commercial aircraft field. So, I had got a great geographical knowledge, but no real knowledge of the military defence business.

So, in 1994, when I was put into that role, I had no real knowledge of the defence business, but realised that - and what I was told, what they then did is Mike Turner, who had still Commercial Aircraft under his wing, was appointed Managing Director of all the marketing team, as well.

L JONSON: He was Group Marketing.

A MCDONALD: Group Marketing Director, as well as running the Commercial Aircraft business.

G MURPHY: Who was that, sorry?

A MCDONALD: Mike Turner.

G MURPHY: Mike Turner.

A MCDONALD: So, he was my boy- when I left Prestwick, he was

the Managing Director of Commercial Aircraft - everything to do with Airbus, everything to do with corporate jets, everything to do with the regional aircraft. And was on his - I reported directly to him. So, when he encouraged me to go south, I thought I was coming from under, I went under the remit - when I moved south, I went under the remit of Sid Gillibrand, who was the Deputy Chairman of the company. He had vied for Dick for the top job; didn't get it, but was Executive Deputy Chairman. And, under Dick's auspices, I carried out the marketing review. So, when I went south, who did I report to? - the Deputy Chairman. So, I was from under Mike Turner, now reporting to the Deputy Chairman, expected to become the Marketing Director - Group Marketing - reporting to Dick Evans, but then told that I had to take one of the jobs that I'd developed, created, and the job I was asked, but I didn't get, but I got the second one, decided to do it.

Because what they told me, 'If you pull in any major deal, in the next two to three years in that region, that will give you credibility and we'll then appoint you as the Group Marketing Director.

G MURPHY: Right.

L JONSON: Were you based in England?

A MCDONALD: Yes, I moved to Farnborough, but I had a -

L JONSON: You weren't required to be based in any particular country?

A MCDONALD: No, but, I mean, no but, I mean, if you, that -
B SMITHWITE: The travelling.
G MURPHY: The amount of travelling.
A MCDONALD: Yes, I mean, if you'd looked, I would do 200
days a year - Peter remembers the time because
he had to look after his sister and all her
kids, because I was always away. I mean, it was
a - was always away. 200 days a year I was
overseas for about five, six years. You know, I
just kept travelling.
P PATERSON: You will have seen in the financial records
there was a purchase of a flat.
A MCDONALD: Fellborough Lodge in Kensington, which -
P PATERSON: That was sold - I can't remember when - 2003 and
the proceeds went through the account. And that
was purchased at that time.
A MCDONALD: That was to, so, that's what, so I'd an
apartment in London - which my kids loved -
which I never stayed in, but they all stayed.
Everybody else stayed in it, but I didn't stay
in it, you know? But I was based in - the
reason I based myself in Farnborough - in
Kensington, was because I used to do a lot of
work with the Ministry of Defence - DESO -
G MURPHY: Yes.
A MCDONALD: And also I had to work - my office was at
Farnborough. And it was Sid who based himself
in the middle of London and told me that if you
- the best thing is to base yourself in
Farnborough, because when you go to Farnborough,
you're driving against - the traffic's coming in

in the morning, so you don't have any traffic headaches and when you're coming back at night, the traffic's going out of London, so it's fairly clear and it was great to just jump the tube to get to DESO headquarters.

G MURPHY: How long did you spend as Regional Managing Director, then, for South Africa and Asia?

A MCDONALD: Well, from the, effectively since the IMSOL was formed in 1995 until I left in 1999.

G MURPHY: 1999.

A MCDONALD: Yes. So, that was the time.

G MURPHY: And am I right in saying that during that time, you were working on the Hawker - the Hawk/Gripen contract?

A MCDONALD: Yes, well, it wasn't Hawk/Gripen in those days. When I, I was - so from 1994, just not to mislead in any way, when I went down there as to put this marketing group together, I'd just done the Jetstream deal in South Africa and they asked me, 'Do you think there's any chance of us doing any business in South Africa in the military field?' So, while I was doing this review, I started taking a close interest in whether they was any chance of doing, but you need - Hawk was - sorry, Gripen was never on the agenda. Nor was Airbus. So, I mean, I know you guys are looking at Hawk and Gripen, but we then went on and did Airbus as well.

G MURPHY: Yes.

A MCDONALD: Albeit through Airbus Group. But my horizons were Hawk - and then I realised Gripen was a

potential and then I realised Airbus was a potential. So, I tried to set a scene that would give British Aerospace an opportunity to do business in that country. But, I, if you want - tell me when it's the appropriate moment - but my analysis I went into South Africa in terms of doing business was a very poor one. From the outset, when I went in to look at the military field.

G MURPHY: Yes. We'll just move on to that in a second. I just want to continue with your sort of overall CV at the moment. So, 1999. When in 1999 did you actually move on?

A MCDONALD: Well, I left the company technically in July. That was when I - June, 30 June is when I left. But I'd actually -

G MURPHY: What year?

A MCDONALD: 1999.

G MURPHY: June 1999.

A MCDONALD: June 1999. No, effectively I'd left in terms of - if you look at the books - but I effectively left in February 1999. I was paid 'til June, but I left in February.

G MURPHY: Yes. Okay. I remember. Yes.

A MCDONALD: I was paid up 'til 30th June, but I left in February.

G MURPHY: Right.

A MCDONALD: Do you want me to deal with my departure at this stage?

G MURPHY: Yes, please. Yes. How did that come about?

A MCDONALD: Well, my concentration - I was told - we were

trying to do business in China, we were trying to do business in Malaysia, in Indonesia, in Singapore and in South Africa. So, I was running with a massive remit at that stage, living 200 days a year away from home, you know, and had this vision that if I was successful on one major project that I was going to become the Group Marketing Director, because that's what was sold to me.

Everyone was cynical about doing business in South Africa and I was probably, joined that cynicism initially, not because there was not an opportunity to do business, but just the way we were going about it was all wrong. That was my - so. But that changed. We could have done the Malaysia deal before; we could have done another Indonesia deal; or we could have done a South African deal. But I knew one of those deals was going to happen. So, I was working across the front on all of those areas, believing that success would lead to becoming the Group Marketing Director.

Now, in that period of time, about two years before I had been approached. I had been an investor in the recovery of Celtic Football Club - which I'm a great Celtic Football fan, so. I'd been involved in the group that was involved in rescuing that by putting money in. Not actively involved, but just as an investor. And Melville Craig, which is a headhunting organisation was told to go and find a

businessman. The guy that rescued Celtic was - who owned most of the shares - a guy called Fergus McCann and they wanted to bring in someone who would take him out, raise equity in the marketplace, take him out and turn it into, effectively, an operating PLC. So, they tried two years prior to me leaving in 1999 to - to leaving in 1999 - to get me as Chief Executive, which I declined, but I was very interested. They knew I was very interested, but I declined because I was all wrapped up in the aerospace stuff. So, and it was - the wages were a lot different, you know, they were a lot less, so a bit. It was a dream, anyway.

So, they, but they came back to me about the time of, probably late 1998, they came to me, talking about the job and at first I dismissed it. At first, I dismissed it. Then, British Aerospace then went through a series of reorganisations that changed my whole outlook. Dick Evans moved up to become Chairman of the company. John Weston became Chief Executive and his first decision was to put Kevin Smith in as the Group Marketing Director. Mike Turner gave that up. This is just at the time that I'm about to get down select on two aircraft through the South African Parliament and I'm told that Kevin's coming in, who's never done any marketing. Kevin's a good friend of mine - was a good friend, haven't seen him for years. But, he's going to be, and he phoned me up and said,

'Look. I'm sorry about this but I can't become the Chief Executive of the company' - they told him he can't become Chief Executive of the company until he's got some marketing experience, so they're now making him, so. So, I was the casualty in this whole process, so I said to John Weston that I was not prepared to work for Kevin under any circumstances. And I've said I would leave, I would finish the South African campaign and leave. Leave amicably, because the - I would get the down select and I would leave.

G MURPHY: Down select meaning?

A MCDONALD: Meaning get the, get the Hawk and the Gripen through Parliament as the selected aircraft, subject to negotiation and contract.

G MURPHY: Okay.

A MCDONALD: And I was just there. I was just about there at the time this all happened. So, I left British Aerospace amicably. I took the Celtic job. The Celtic job came up. Well, I went back to it, took that up and left to become Chief Executive of Celtic and walked away from British Aerospace because - another thing had happened. Just at that time, just as Kevin had been appointed, just to reinforce the point I wasn't going to get the job, then GEC and British Aerospace agreed a merger and then I heard Sir Charles was being brought back in as Head of Group Marketing and that Kevin was going to be a casualty of, from the Group Marketing. He wasn't going to be

a casualty in terms of being dismissed; he was going to be a casualty in terms of he thought he was being Group Marketing Director, but that was going to be short-lived because GEC - if you just look at the timeframe - GEC and BAE were merging at that stage.

G MURPHY: Right.

A MCDONALD: Just at that time, they were merging. The merger took place, I think, about a month or two after I left, but it was all in the newspapers that the merger was being reviewed. And so, and part of the deal was, you see, just to understand the politics, Sir Charles was seconded from British Aerospace to DESO. When he was coming out of DESO, British Aerospace offered him a job that was not on the main board. GEC offered him Deputy Chairman of GEC on the main board. So, Sir Charles did the unforgivable, as far as British Aerospace was concerned, he went to GEC, who was the bitter the competition. Right?

So, when the two companies were being merged, one of the conditions of the merger that George Simpson insisted upon - he was Chief Executive of GEC - was that Sir Charles' position would be protected and that he would become Head of Group Marketing for the whole of the company - so, the top marketing man - and, in truth, he should have been. I mean, in truth, he was the best man for the job. In truth. Right? But, from my perspective, a man who - and I worked with

Sir Charles during the whole South African deal - he was head of DESO.

So, he and I were very much instrumental in getting the South African Government to accept a process of proper defence procurement, as opposed to what was in place before I entered the scenario. So, Sir Charles and I were cohorts, with Alex Roberts, in getting the South African Government to understand that you'd be much better respected if you go through competitive tendering offset, rather than trying to push through sales, which what - they were trying to push through the Corvette sale, which was a GEC deal -

G MURPHY: Yes.

A MCDONALD: Ignoring all - they didn't do competitive tendering, it was just using the might of GEC, with pressure on the new Minister of Defence, Joe Modise, to do a deal.

P PATERSON: I think we'll come on to this in more detail.

A MCDONALD: But, Sir Robert Easton, who was Head of GEC at the time on the shipbuilding side, had a very close relationship with Joe Modise and they were trying to bully a deal through, and they were being criticised in the new South Africa -

G MURPHY: Right.

A MCDONALD: For that process.

G MURPHY: For that, yes.

A MCDONALD: And, but DESO was supporting that process, right. So, the British Government was in there giving all the backing. So, I was trying to use

my good offices to say, 'DESO, back off. Let's do this professionally. Let's go about it more professionally,' which was my involvement in 1999.

G MURPHY: Yes. We will come on to that.

A MCDONALD: But I left British Aerospace because after my success in getting the process back on a good footing, being successful in the down select, to then come back and find that the politics - I mean, you're out of, I'm out 200 days a year. I wasn't fighting a political game. I'd lost ground. Sir Charles was coming back. My conscience told me he was the best man for the job, anyway. He'll tell you privately - if you ever talk to him - that he offered me, if I would stay - he came after I'd said I was leaving - that I would become his deputy if I stayed. But I said, 'Well, I just had done about six years as your deputy, so I don't want to be a deputy dog any more.' I wanted to be more of a leader. So, I left at that stage.

G MURPHY: When you moved on and at a later stage the contract was won, did you ever receive any payment from BAE in lieu of the work that you'd done prior to signing?

A MCDONALD: When I was leaving British Aerospace, because I was, with John Weston, I pointed out to him that as far as I was concerned that the company had not acted honourably to me. They'd encouraged me to move south, give up a major position within Commercial Aircraft, move south on the

pretext of becoming the Group Managing Director, and that wasn't given to me. I was then said to become a Managing Director of not the region I really wanted, but give us success in that, become Group Managing Director and that the carpet was pulled underneath me. And I said, and I worked on all these campaigns and my whole salary was really - it was a pretty good salary, but mainly, because I had turned down at the time being Managing Director of British Airways Engineering. I was offered that position while I was at Headquarters, which is a much better paid salary. But, Dick and everyone said, 'Stay and be successful with what you're doing' and the bonuses.

So, what I had negotiated with British Aerospace that if any one of the deals came through, if the Malaysian frigate deal came through - it still hasn't - but if that had come through in that timeframe or if another sale of Hawk to Indonesia came through or if one of the South African deals came through, they would pay me commission - the bonus arrangements that were in place for those deals. And, effectively, I got about £600,000 bonus paid to me after, about a year after, over a year after I left.

Technically, a year, because it was paid - I left in February, but it was paid, I think, in May, the following year. And I left, if you like, from a technical point of view, in June the previous year.

G MURPHY: Yes. The contract was signed in December, wasn't it?

A MCDONALD: No, no.

G MURPHY: December 1999, but became effective in -

A MCDONALD: No. Yes. There was no - I think that's right. The contract did not become effective -

L JONSON: April 2000.

A MCDONALD: April or May.

G MURPHY: Yes.

A MCDONALD: And I was paid, I think at the end of May or June.

G MURPHY: Okay.

A MCDONALD: And it was £600,000 that was paid to me. It was a bonus paid to me.

G MURPHY: Okay.

A MCDONALD: Now, I've had - so, for the record, they paid that bonus directly to me. They had an obligation to pay income tax on that and didn't. Because I thought the bonus was nearer £1 million, I had assumed that income tax had been deducted. That was a stupid assumption and about 18 months later - my brother Paul's a chartered accountant pointed out to me we should clarify that. And it became a special investigation - a special investigative matter under the Inland Revenue, for that £600,000. I, as soon as I realised what happened, I paid the tax immediately for that. The whole tax that was due. They then came back and there was a national insurance contribution. British Aerospace was then fined by the tax inspectors

for not having paid tax at source and for failing to pay the national insurance contribution and the special investigation branch went and investigated all my tax affairs because they said, 'How many more of these £600,000 cheques have you had in previous years?' And I said, 'Well, none.' So, they went through a complete investigation. I only draw that to your attention to show that that £600,000 came under investigation about 18 months later and that was all cleared and satisfied. It was as I've said it happened, so, my -

G MURPHY: Did you ever incur any penalty or any fine from the Revenue at the outcome of that?

A MCDONALD: Yes. Because I had a year late in payment, there's three penalties they can hit you with. Massive penalties, severe penalty. Massive was when they can take it all, and then just a small penalty, just to smack you. They smacked my hand because I hadn't declared it in the timeframe, but they accepted it was me that drew it to everyone's attention, not British Aerospace. It was me that paid the full tax due, when two-thirds of it should've been paid by British Aerospace and they made British Aerospace pay that full tax and they said to British Aerospace, 'And you can recover that money from Mr McDonald.' So, I paid back that money to British Aerospace. So, if you understand, I paid the full tax.

The Inland Revenue then forced British Aerospace to pay what - everything above 30% - it's 40% tax - everything above 30%, I was due to pay. So, my penalty, my failure to pay was the declaration between 30% and 40%. That was my crime. But as soon as I realised what happened, I paid the full tax for the 30 plus the other 10 and that's what Inland Revenue felt that I had behaved - responsibly, albeit it a little late and I got a small, not big, penalty. It was KPMG was the people that represented me and did a great job and they also were the lawyers - or the accountants - for the company, but we got an agreement that they would have the Chinese walls between the two. But it was all dealt with by KPM and they did a great job and tidied that whole affair up.

G MURPHY: Great.

A MCDONALD: And so I paid the, and that was the end of my, that was my last arrangement with British Aerospace.

G MURPHY: Okay.

A MCDONALD: That was the last arrangement. Can I just point out to you? From the period I left 'til about the period I received that payment, I attended Thabo's investiture as his special guest - Thabo Mbeki. I had attended his investiture as President. I think that was about -

L JONSON: 1999.

A MCDONALD: Yes, but three months or four months - I think I was technically still with the company, but I'd

left the company, if you know what I mean. I'd left in February. I was already in the Celtic job. So, when I went there, I was Chief Executive of Celtic, but I think I was still being paid by British Aerospace. I think it was at that May, round about that time, at his investiture, and Fana Hlongwane, whom I'd got to know exceptionally well during that whole period, was over in Britain and came up to a Celtic game, I think, in September or October of that year. He came and attended a Celtic game as my guest. So, I had - and I saw him in London the following year. But, really, that was, that was really the end of my connections with South Africa, about 12 months later.

L JONSON: Gary, I'm just looking at the time on the tape, it's 44. I don't whether we've missed a... It's not doing the warning siren.

G MURPHY: Okay. Let's just -

A MCDONALD: Is it still running, the tape?

L JONSON: Yes.

G MURPHY: There we are.

A MCDONALD: It's like doing a slide presentation where you're always one slide ahead.

G MURPHY: Okay. Well, that's the buzzer for the end of the first tape. The time by my watch is 11.16 and we'll stop the tape.

(End of Tape 1)

TRANSCRIPT OF INTERVIEW HELD AT TODS MURRAY LLP, SOLICITORS,
EDINBURGH QUAY, 133 FOUNTAINBRIDGE ROAD, EDINBURGH EH3 9AG ON
TUESDAY, 14TH AUGUST 2007.

CASE REFERENCE RLI02

TAPE 2 OF A BATCH OF 14

PERSON BEING INTERVIEWED: MR ALLAN MCDONALD

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MR PETER PATERSON	-	SOLICITOR

B SMITHWHITE: This is the start of tape two of the Section 2
interview with Mr McDonald. The time by my
watch is 11.25. Please, can you confirm, Mr
McDonald, that we have not discussed any matters
relating to this case during the interval since
the end of the previous tape?

A MCDONALD: I can confirm that.

G MURPHY: Okay. We'll continue, then. At the end of the
last tape, we got as far as your reasons for
leaving BAE and we just touched on the fact that
you'd taken the job at Celtic Football Club.

A MCDONALD: Yes.

G MURPHY: If you could just take us through briefly now

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Corrected transcript

the rest of your CV until the present day.

A MCDONALD:

Well, I then, I was at Celtic for effectively two years. When I took the job at Celtic, it was on the understanding with the Board of Directors that we recapitalise the club and we, I went out and raised potentially up to £90 million because the two major shareholders, Fergus McCann, who was leaving the company and Dermot Desmond, who was then the principal shareholder, did not want to be diluted to that degree. They only raised enough money to move Fergus McCann out, which left the club underfunded and me at odds with Dermot because he wanted to maintain control and I only joined it on the basis it was going to be a proper PLC. So, that was a matter of real contention for us for the two years I was there. We, first of all, brought in - I'll be very brief - Kenny Dalglish and John Barnes. That wasn't a success. I had to get rid of those two. I then brought in Martin O'Neill, who made a great success. And when, the first thing I realised about Martin, whoever thought they were going to run Celtic, you know, whether it was the Chairman, whether it was Dermot Desmond or whether it was Allan McDonald, the reality was Martin was going to run Celtic. So I then realised there was no future for me in that role and resigned after two years as the Chief Executive of Celtic. I then joined a company called Wingate Capital.

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Corrected transcript

P PATERSON: That was effective 31-12-1999.

A MCDONALD: 31-12-1999

G MURPHY: Okay.

A MCDONALD: I then - no, no. That's wrong.

P PATERSON: 31-12-2000

G MURPHY: What? When you resigned from Celtic?

P PATERSON: Yes. Because you started in 1999.

A MCDONALD: Yes. 1999. That's right and ended up at the 31st. So, two years. I then joined Wingate Capital, which is a privately owned, Swiss-based private wealth and technology-based company and worked with Wingate Capital in setting up Delta Search Labs in Boston, which is a supercomputing laboratory in Boston and working in building up a private equity team to do private equity transactions. Today, everyone's talking about private equity, but in those days we were probably ahead of the game. Set up a very good team.

Then the crash came - the stock market crash. Wingate Capital, the principal of that was a gentleman called Mr Syed Jaffrey was a heavy investor in DEC and he lost serious monies. So, he became reluctant to invest in any more private equity transactions, but one of the partnerships we had talked about was working with a chap called Robert Priddy, who's a guy I had met in Commercial Aircraft who was big in private equity in the States, and he encouraged me to go and try and rescue this company out of bankruptcy - it was a British company,

Microsulis, which uses microwave to treat cancer.

I then left Wingate, went to run Microsulis - or to take it out of administration. I took it out of administration, got two of its FD approvals and over nearly now 18 months ago - yes, 18 months ago - resigned as Chief Executive. We brought 3i in to run that company. 3i is a major investor. They brought their own Chief Executive. I'd got the two technical approvals. My role was getting - although I was talking about my success at marketing earlier on, I mean, I had a great success at taking aircraft through the certification process. Probably as good a record as anybody in British Aerospace at taking aircraft through the CAA and FA certification process. So, I was an engineering talent as well as - I mean, marketing, everyone said I was a good at marketing. I just told people how good the product was and people bought it. But I didn't see myself as an out-and-out marketer. I saw myself more as someone that knew the general business of aviation and good aeroplanes.

So, I did the same and we left Microsulis. And since then, I've been a consultant, doing some work for Wingate, doing some work for Helvetica, doing some work for Commonwealth in New York. Commonwealth is an investment bank. So, what I've been doing is doing some consultancy work for three or four, what you might call, private

banks. More on the technology side, just doing reports and that sort of activity.

At the moment, I'm doing, I'm working on possibly an accelerator fund with Helvetica with Scottish Enterprise. So, it's a Government involvement. I'm working at the moment and I'm also working with the Chief Executive of Delta Search on a potential breach of copyright with two major telecommunications companies, that they have breached our copyright. So, I'm working - that's two projects. So, I do kind of project work now. I don't take any Chief Executive responsibilities any more. I just more act as a consultant or lead in a particular project.

G MURPHY: Okay. And do you do that through a company of your own?

A MCDONALD: Yes. I do it through Silex, which is the private management company. They manage the invoicing and the - yes, through a company of their own. So, they use a company. They used different company names to collect the fees and then they distribute it to me.

G MURPHY: Oh, right. So, you're not trading as -

A MCDONALD: Allan McDonald.

G MURPHY: Allan McDonald.

A MCDONALD: No, no.

G MURPHY: PLC or -

A MCDONALD: No. I trade - depending on what the project is, they allocate a company name. Silex - I'll just explain - Silex is a, like an administrative

management company. There's lawyers, they're made up of lawyers - British-trained lawyers - and British chartered accountants, and all they do is manage people's business affairs legitimately. So, they put structures in place to manage that and I use Silex. I let them take care of all the administration.

G MURPHY: Right. Okay.

A MCDONALD: So, they do the invoicing. They do the collection of any fees due. I tend to work - to be perfectly honest - I tend to work, I haven't taken a lot of fees recently because I working on a success-fee basis. So, if you say, am I getting any income? On these roles, I'm receiving no income. But, the success fees are very generous if we're successful.

G MURPHY: Okay.

A MCDONALD: I understand that you do have a number of companies yourself?

A MCDONALD: No.

G MURPHY: No? You're not director of any companies yourself? I'm just thinking about - let me -

A MCDONALD: Yes. No, please, please.

G MURPHY: Plympton?

A MCDONALD: No, I'm not. I'm, Plimpton, I'm the beneficiary - the ultimate beneficiary - of Plimpton. I'm not a director of Plimpton.

G MURPHY: Right. Okay.

A MCDONALD: Yes. Most of the other companies - Plimpton has been what's emerged as the final company and the previous companies have all been closed. If

that's what you're thinking.

G MURPHY: Right. Okay.

A MCDONALD: If you, I can take you through, but of all the previous companies - but, please, can I just say, on anything to do with my private affairs, you can write to the people at Silex and they will openly exchange with you on any matters to do with my private affairs. Openly, in full disclosure on any matter to do with Silex. I have nothing to hide in that matter.

G MURPHY: Yes..

A MCDONALD: I believe they do a very good, first-class job in looking after my interests.

G MURPHY: Okay. You mentioned -

A MCDONALD: I was a Director of Microsulis. I was a Director and resigned from Microsulis. So, I'm not, I'm just -

G MURPHY: What was your position in Wingate?

A MCDONALD: I was a Director of Wingate. I was a Chief Executive of Wingate Technologies. I was on the Wingate board, but I resigned from both at the time I joined Microsulis, but now I act as consultant to Wingate, but I do consultancy work for them. But I have no formal status with the Wingate organisation any more.

G MURPHY: Right. Okay. You've mentioned one little brush you've had with the Inland Revenue and you've explained all of that. Are there any other issues similar to that where maybe you've been investigated - for want of a better word?

A MCDONALD: Never.

G MURPHY:

No?

A MCDONALD:

Never. Never. No, no. The only, the only time I've ever been involved in a formal status with the authorities was this £600,000. And you mentioned had I received a payment? That £600,000, not only did I receive it, but it triggered then, later on in my life, a full investigation of my seven years of, all my transactions going back seven years were investigated by the Inland Revenue.

So, once they - I mean, it seemed to me at the time - they were using me because I think they were - they fined, the person who was fined the most that come out of this was British Aerospace for failure to disclose on a number of things. But, I think they just used me as a vehicle because - I mean, just so we're clear. When I received that £600,000 and based on the bonuses, at one time I was earning more money in bonuses, because of Commercial Aircraft, than anyone else in the company. I mean, at one time, even though I wasn't on the main board, for about four or five years I was exceptionally well paid by British Aerospace. So, I think when the Inland Revenue saw these salaries and wondered was I also getting other payments, that's what triggered that whole investigation. But that was the -

G MURPHY:

No, that's fine. So I take it from what you said - but it is a question I have to ask and I want to get it out of the way now - I take it

you've got no criminal convictions or anything like that?

A MCDONALD: No criminal convictions whatsoever. Except - and he's got more than me, he has three points on his licence.

G MURPHY: I'm not interested in speeding, parking, anything like that, no. Right.

A MCDONALD: You see, every time I come up to Scotland, I seem to get one. So, I mean, that's, I mean, I just can't get away. I've always had three points on my licence. I get down to - I think I'm just about to, I'm learning, then suddenly another three appear. Right.

G MURPHY: Okay. Lydia, was there anything you want to ask on any of the CV?

L JONSON: No. That's been fully done.

G MURPHY: Okay. Brenda? No. All right. Let's move on now, then, to the first of the stages that I discussed and we're going to look at pre-1994. The build-up, if you like, to you coming on board, you moving down to South Africa, getting involved in that contract. What was going on in that period of time - the building up to the contract? Who was looking at the contract? Who was -

A MCDONALD: Well, Jerry Wooding, who was, became one of the Managing, the five Managing Directors eventually, he was, like the Head of Marketing for the defence companies. So, if you imagine I said there was, like, two companies - Commercial Aircraft and Defence - Military Aircraft. So, I

came down into Headquarters. I was looking at putting an umbrella marketing organisation in place across everything. But, at that time, each company had its own marketing organisation and Jerry Wooding was head of the defence marketing organisation and he had an overview of everything in Defence Marketing and all of Africa fell under his remit and he knew the personalities in Africa.

He had - all the representatives were military aircraft people in various countries. The one in South Africa was a guy called Robbie Roberts and Robbie Roberts used to be based in Zimbabwe, when they did the Hawk deal. So, Robbie Roberts was in South Africa when I first arrived on the scene and he -

- G MURPHY: In what capacity?
- A MCDONALD: As the Regional Director.
- L JONSON: Can I just ask? Robbie Roberts?
- G MURPHY: Robbie Roberts.
- L JONSON: Was he actually called Robert Roberts or is he...?
- A MCDONALD: I don't, to be - we just knew him as Robbie - R-O-B-B-I-E - Robbie Roberts.
- L JONSON: Okay.
- A MCDONALD: The reason - he didn't last -
- L JONSON: There's another - obviously you've got Alex Roberts as well.
- A MCDONALD: Alex Roberts is, he would never work for British Aerospace. He was Shorts of Belfast. This is, this was a regional marketing manager covering Africa, but based in South Africa, called Robbie

Roberts.

L JONSON: Right. So, not the same as Alex Roberts.

A MCDONALD: No. Not the same. And he had done the Zimbabwe deal - the Zimbabwe Hawk deal - with John Bredenkamp and Jules Pelissier.

G MURPHY: Right.

A MCDONALD: Right? So, that's my first mention of those two names, but Robbie Roberts and Jerry Wooding and Mike Turner had done the - because Mike Turner had previously been Jerry's boss and, because Mike was Head of Defence Marketing before he came to take over the demise of Commercial Aircraft. What Mike Turner - was taken out of Defence Marketing to come and manage the demise of Commercial Aircraft - the strategic demise of Commercial Aircraft and Jerry Wooding took over his role in charge of all Defence Marketing. So, Mike Turner was in charge of Defence Marketing when they did the Zimbabwe deal on the Hawk, which involved Robbie Roberts, who lived, I think, at that time in Zimbabwe, with Jerry Wooding. Jerry Wooding, before he took over that job, was the PR man to the Chairman of the company, John Kayhoe, I think it was at that stage or - no, it was Roland Smith. So he, when Roland Smith left as Chairman, Jerry came in and took over from Mike Turner, running Defence Marketing.

So, when I arrived on the scene, Jerry was in the position, but two years prior to that his, the man that managed it was Mike Turner. And

they had Robbie Roberts in South Africa looking to see if he could do a deal on Hawk. But Robbie was, you know, about 60-odd by that time and, really, there was not a lot of enthusiasm and no-one - no-one - thought that there was any prospect of doing Hawk in South Africa. None of the senior people in the company - not Dick Evans, not Mike Turner, not Jerry Wooding - nobody, not anybody in Military Aircraft at Warton believed there was any chance of doing Hawk in South Africa.

If you imagine the scene as I entered it, GEC were big in South Africa. Through Sir Robert Easton, they had lobbied hard the new Government. They had direct access to Joe Modise and to Ronnie Kasrils, who was the Defence Minister, and they were pushing hard for - and it's all, if you go to DESO, DESO will give you a much better analysis. If you want to know what was happening -

G MURPHY: They were very active at that period, were they, DESO?

A MCDONALD: Very. DESO and the British Government were very active in trying to support. I mean, they had an Army, there was a special British Army advisory board down helping them to transform the two - you know, there was the ANC rebels and the legitimate army, and the merger of the two. The British Government put serious, high-qualified officials down to talk about the merger. They took some of their guys out and

put them on Defence Army courses. So, this was a - I just know about it because that's what - there was a lot of people - not in Johannesburg - in Capetown and the embassy down there working. A whole load of British people working, helping with the transformation - being very proactive in helping with the transformation. But, what GEC had done, it had gone in and nurtured a very special relationship, you know, trying to get a Corvette deal done without competitive tendering, just using the Ministers. Because Joe Modise, if you imagine, he was head of, he had been head of the effective rebel army and was now Minister of Defence and carried a lot of power. You see? What was happening in South Africa was that the brains behind the regime were the younger generation - Thabo Mbeki's generation - but the old South African Government had decided it can't deal with the younger generation. So, what was agreed that was done - and it's an expression you may hear or may have heard before - but let the old men have their day in the sun. All the people that were in jail, like President Mandela, like Matt Maharaj, Steve Tshwete- all these people who had done 20, 15 years in jail, let them come and be the face of the ANC and let the Government deal with them, but behind it, the economic power and the control was the younger guys. And their view is let the old men have their first Parliament. Let them have

their day in the sun and we will then come through and take over at sunset.

G MURPHY: So, at that stage, you've got, I think you said Jerry Wooding down there from BAE.

A MCDONALD: Yes, he was. Sorry. Jerry Wooding was boss of the whole of Group Marketing and had an overview of Africa, including South Africa.

G MURPHY: Robbie Roberts is -

A MCDONALD: Robbie Roberts was down there, yes.

G MURPHY: Who were they actually dealing with, then? Who were they lobbying at that time? Was it these people?

A MCDONALD: Armscor. Armscor, which was the equivalent of DESO. They would lobby Armscor. They would talk. Robbie knew the Air Force - Robbie's ex Air Force officer, so he's having gin and - he was what I call the gin and tonic brigade - he was having gin and tonics with the Air Force officers.

Now, as if Arms Corps, which is part of the old regime, as if the Air Force. The reason that the Air Force was favourably considered by the new Government was they were the first of the Armed Forces to transfer their loyalty to ANC. The Chief of Air Force very early on said to Government - the old Government - let's be real here, this is taking place, you know. And they flew - when the President was appointed President, they did a fly over - the Air Force - at their own instigation. So, the President Mandela had, like, kind of warmed towards the

Air Force.

So, that was a bit fortunate on Robbie's part, that the Air Force as a bit enlightened about what was happening. But he was, but the Air Force would determine what equipment they were going to buy, but they were never going to determine what the budget was or where the money was going to come from in terms of, you know. They needed to get the politicians onside. So, Robbie had no contacts with any of the politicians. Bredenkamp and Jules were not even in South Africa at that stage.

G MURPHY:

No. They were in Zimbabwe, weren't they?

A MCDONALD:

Yes. But, I mean, they had an agreement. What I didn't realise 'til I was well into the campaign that a number of people had agreements representing British Aerospace in South Africa. It seemed to have been - everyone seemed to have a, you know, we've got this agreement. These agreements were appearing, you know, all across - well, I was here trying to run a serious campaign about let's do competitive tendering, and suddenly this agreement and that agreement was appearing, and all I could see was the price going up. And here's me pushing for competitive tendering and my price is going up because of these arrangements all kept appearing. But, all I'm saying is Robbie Roberts was in South Africa. He was very close to John Bredenkamp and Jules Pelissier, who had an agreement that I was not aware of until the

South African campaign started getting some legs, that they had an agreement on Hawk, and only Hawk.

G MURPHY: Right.

A MCDONALD: Hawk, and only Hawk. Because Gripen was not even mentioned. There was, the person that perceived the opportunity to sell Gripen was myself.

G MURPHY: Right.

L JONSON: When did the joint venture get signed between Saab and BAE? Do you remember?

A MCDONALD: Just about that time. Just about, but it was not related to - South Africa. Just about that time, but it was not South Africa focused. Even Saab didn't see an opportunity in South Africa. It was more Hungary or other places - Czechoslovakia. But Gripen was never on the horizon for Saab. That was unfortunate, but became very fortunate because if you look at the history of the ANC, much of the, many of the children of the ANC exiles were educated in Sweden.

L JONSON: Oh, really?

A MCDONALD: The Swedish Government was very supportive - much more than the British Government. Much - and that's why if people say how did Gripen, I mean, how did you get selected for Gripen, well because, you know, one of the things I was good at was putting two and two together. But, here there was a very favourable new South African regime towards the Swedish Government. Right?

But the one thing that Sweden were never good at was the selling of their own defence product. I mean, you meet the Swedish defence salesman, you'd see why, but, you know, they weren't good at selling defence product.

So, when - I was then told - it was at these I say just, suddenly Gripen became part of my product line, which it wasn't when I first started doing the review. But it was all about that time. I wasn't involved in that partnership.

L JONSON: I think it was 1995, the actual JV was signed which would be -

A MCDONALD: It was just about that time because it suddenly appeared on my product line - here's another product you have to sell. We were going to market it for them, you see.

G MURPHY: At the time, about the time you were going down there and BAE were operating, you'd said the Air Force had seen the writing on the wall and they'd decided they were -

A MCDONALD: Supporting the new Government.

G MURPHY: Supporting the new Government. Who were BAE sort of targeting to lobby? Because, obviously the point is you said the politicians need to start getting involved to sort out budgets and things like that. Who in the new ANC Government would be targeted?

A MCDONALD: Well, in fairness, BAE - no-one in BAE had given what we call a mapping process. It was something that Sir Charles and I introduced in

the Commercial Aircraft business. But there was nothing like mapping process about who to target, what were their hot buttons. There was no scheme of that nature.

The way BAE operated was as follows. Let's have Robbie Roberts down in South Africa, gin and tonic with the Chief of Air Force, the Head of Maintenance who, in the context of what was going on down there, had little influence. You know? Because they weren't even sure they were going to be given a new budget. So he was down there seeing his last - he's done the Hawk, this was his payback, go and have a nice time in South Africa.

Richard Charter, who as BAE's man in South Africa, thought there was a chance of selling Hawk. But, he was the 125 salesman as well, so he was selling Hawk at 125s and he was getting something like 400,000 - well, maybe, I admit, that's a big exaggeration, I couldn't tell you what it was - but it was a fairly large commission every time he sold a corporate 125.

L JONSON:

Sorry. You're going to have to...

A MCDONALD:

Corporate - British Aerospace had three businesses. The corporate jet business. It had a commercial aircraft business, like, regional aircraft, and a defence business. Corporate Aircraft was part of Commercial Aircraft and these are eight-seater corporate jets that you sell commercially to private companies from private individuals. It's one of the best

corporate jets. It's now owned by Hawker - by Raytheon. It's called the Hawker. In those days, it was the BAE125. It was an eight to 12-seater aeroplane.

L JONSON: That wouldn't be a competitor for the Hawk?

A MCDONALD: No, no. This was a completely different. Civil aircraft market. Like, to all the big corporations who we'd been banned from dealing with before, suddenly, Richard was selling corporate jets to them. So, his focus was - although he's the British Aerospace representative in South Africa - his focus was really corporate jets. But he was the one - in fairness to him - he was the one that thought that if the new Government could be persuaded to go about thinking its defence - doing a proper defence review.

Well, it's - when I went into South Africa - when I went in - the things that you would expect a professional marketing regime to be, none of that was in place. The country had just become under the new ANC. I was seen to have more knowledge about South Africa than anyone because I'd sold, from the time of the end of apartheid, I'd sold commercial aircraft. So, I'd gone down there and I'd got to know some of the ANC people. You know, because you dealt with Government officials, like Alec Erwin, who became, you know, the Finance Minister. So, you bump into these people and, you know, at functions and so.

And Richard Charter never gave us much help in Commercial Aircraft. He was too involved in selling his corporate jets. He was really not a great help to Commercial Aircraft and the people that worked for me didn't have a great regard for Richard and he did not have a great regard for them. But, you see, it was to his chagrin when I was appointed into Headquarters and was given South Africa, he was very uncomfortable with that. Suddenly, he was now going to have to report to a man who he had really treated - his people, not with me anytime - with disrespect. So, my first relationships with Richard was to put him on, you know, say you're our representative, you need to get in line and let's talk.

But the man I leaned on heavily - when I went to South Africa, there was no great vision about what was going on.

G MURPHY: How did they sell products, then? Who did they actually speak to to be able to sell?

A MCDONALD: No, but, you see, if you imagine the way British Aerospace worked. In Defence, unlike Commercial Aircraft, we could take you and put you in a country and see, just see what, just try and get yourself into the country and see if you can see opportunity for four or five, six years.

G MURPHY: Right.

A MCDONALD: Right? No great direction from the corporate, from the company. I mean, you're - I was amazed - I mean, at Commercial Aircraft we knew all the

airlines - who were the presidents, what were the requirements. Right? In Military Aircraft, nothing like that. You know, no great strategic view of being - no-one following what Government was doing. What was the Government thinking about the new Government, ANC? No-one talking to the Foreign Office. It was me that started that whole process. Let's see what the Foreign Office have got to say. Let's see what DESO have got to say. Even DESO didn't have it right. They're pushing a non-competitive approach, you see, which if you talk to Sir Charles today, he would confirm.

But the person who brought home to me how puerile British Aerospace were in their whole approach to South Africa was Alex Roberts. He was the person. He was, like, number two in Shorts of Belfast. I think Bombardier had taken them over. He was now representing Bombardier in terms of their monorail system in Malaysia, which he was the one that - he won that project. There's a big monorail project in Malaysia. Pure to Kuala Lumpur, this massive market - it was Alex that put that in place for Bombardier and became adviser for the Bombardier family and he really is quite a distinguished individual. I mean, he's a very, very impressive man, Alex Roberts. He turned down the opportunity to be Head of Defence Sales twice. It was him that proposed Charles to Government should make him Head of Defence Sales.

L JONSON: Sorry. What was his role from when you went down to South Africa?

A MCDONALD: He was, I think, Deputy Chairman - oh no, I think he had left. He had retired from Shorts of Belfast, where he had been Deputy Chairman. Roy McNulty was the boss of Shorts. When Roy was made Chief Executive of Shorts, it was a great disappointment to Alex Roberts. Most of the industry thought that Alex Roberts would become the Chief Executive of Shorts of Belfast. Roy McNulty became Chief Executive. They then did the Bombardier merger. So, suddenly, Shorts, from being a little irritant company suddenly became a serious aerospace company because they were linked to Bombardier. But the Bombardier family selected Alex as their key worldwide representative. He became an adviser to Beaudoin, who was the Chief Executive and the son-in-law of the Beaudoin family, who owned Bombardier. Beaudoin himself, he became - he was the Chief Executive. Alex became his adviser.

So, he was, like, seen as one of the great gurus of the aviation business. I mean, Alex Roberts would be recognised - if you said to me, at that time - how I knew him was because, even although, today in Scotland, we have one airline. That's Loganair and it's survived for 30 years through a guy called Scott Grier, who took it out of bankruptcy. And it flies to all the islands. How it survives, nobody knows.

But, Scott Grier is just devoted to running this airline and Scott went to Alex Roberts when Alex was Head of Sales at Shorts - this is years ago - and bought Shorts 330s and 340s for all the little airline journeys. And Scott's a great friend of mine and he introduced me as a young man - a young aviator - you know, in Commercial Aircraft days to Alex Roberts. And when we used to go to Farnborough, when Shorts had their - we were always invited to the - Eileen and I and Freida and Scott Grier were invited to the chalet of.

So, here was me, fairly junior in the British Aerospace organisation invited - by that time Alex would be, like, Vice-Chairman of Shorts - into the Shorts chalet with. So, I knew Alex Roberts in my Commercial Aircraft days because he was a competitor, to some extent, but we operate in different markets. The aircraft he sold never competed with what I sold, so we used to share information and became great friends. But I got a lot - a lot of the kudos of being the friend of Scott Grier came onto me. So, I really didn't have to prove anything to Alex Roberts. He saw how close I was to Scott Grier and therefore he and I, from very early days, had a great relationship.

And when I took over the Defence - when I was took over - all of the people thought I was going down to become Head of - I mean, the rumour was I was going down to be Head of

Marketing in British Aerospace, so a nice letter from Alex, if I ever can help, come and see me. And when I took over the African and Asia region, which he knew like the back of his hand - he knows that region better than probably anyone else I know. He was the first guy I turned to and he told me the company, the whole - not just British Aerospace - but the whole British approach to South Africa was wrong. To try and - for a new country, being watched by the world, has got its own independence, having fought so hard to get it, to suddenly start adopting, you know, defence procurement programmes where you kind of forced someone through all sorts of cajoling for all sorts of reasons to take Corvettes and upset the whole of the European market, all the other countries who would then go and complain to the President, you know. So he was opposed to that from day one and he was trying to put Shorts equipment into the Army. He was trying to put Shorts missiles into the Army. That was why he was down there. And he was so critical. And he said to me, you should use your good officers with Sir Charles Masefield - because I used to work for Charles and he was now Head of Defence Sales, and Charles and I were very close - he knew that - to try and get Charles to take a much more reasonable approach and to say we'll be much better respected if we can get the British Government to persuade the South African

Government to do a proper defence review and support that defence review with specialists and then to go and do a competitive tendering for all the product.

So, that's effectively, when I went to South Africa, that's what I started to try and do. People like Robbie Roberts were cynical and said, you know, here's this new guy, doesn't know what he's doing. And, effectively, I get rid of Robbie - within about 12 months, I get rid of Robbie. All he was was an old regime. This is not going to be done - never believed. And he retired. He took early retirement at my instigation. He was very close to Mike Turner and, do you know, everyone in the company - Dick Evans, Mike Turner - told me I was wasting my time in South Africa - concentrate on Indonesia, concentrate on Malaysia. And it wasn't that I wasn't. It wasn't - if you look at my diary - it wasn't that I wasn't, but I just thought that this was a great challenge. And Charles Masefield and Alex Roberts did wonders in those early days to put the whole thing back on a proper footing and we, British Aerospace, just supported that, from that point on, 100% You see, Alex's view was, you've got the best advanced jet trainer in the world. The South African Air Force has a long association with the Royal Air Force - during the war. Build on that, so get the user supporting it and get a set of commercials together, an offset - like

you did in Malaysia on the Hawk - and attract. Now, the thing I did differently, where I fell out with British Aerospace - I think where I've been most severely criticised by British Aerospace is, every offset deal that British Aerospace had done up to that point was promised offset - promised. I promise you we'll give you this offset. A memorandum of understanding that if you do this, we'll work hard to give you this.

So, when I pointed out to the South Africans - to Joe Modise, to Fana - you can contract for offset, you can contract to make the obligations binding on the company. And, my view was - and I'll be very honest - I didn't see us putting. I am a Commercial Aircraft man. I want to become Head of the marketing of British Aerospace, having to sell defence product first, to prove my worth. Right? So, when I'm in South Africa, seeing this new country struggling to come to terms with it, with **us pushing defence product down their nose**.

So, I had to come to a rationalisation in my head about the - this may sound strange to you - about the fairness of all of this. But what I found out about the mature investment world was that, at that time, South Africa had a credit rating of C++, at best, not a B credit rating, and certainly not an A credit rating. So, no - so what I organised with Sir Charles and with Alex Roberts was for investment bankers to go

down and tell Government - tell Government in meetings with senior Government officials, Alec Erwin, Ronnie Kasrils, Joe Modise, Stella Sigcau - that unless you, South Africa, improve your credit worthiness - your credit rating within the financial community - you're never, ever going to get established and get the investment you're looking for in any project. So, you have to look on civil defence and on policing and get those great priorities.

So, they were saying, well, we don't need to - let's spend money on housing, was the kind of new Government's approach, and what we were able to get them to see was that if you spend money ensuring you can defend your borders - because, you know, it's always at threat - and defend your streets and police well, that sets the environment for outside investors to come in and invest, and that pushes your credit rating up. And it's when they invest, they give jobs and then you can buy - people can buy their own houses and pay for their own education. And it was fair - believe it or not, it was as fundamental as that. And Thabo being an economist, we got to Thabo probably more than anyone to see that we needed an economic approach which was improving the credit worthiness.

And if you look at this period of time, South Africa's credit worthiness went from C++ up into A/A+. As soon as they announced they were going

about a proper defence procurement through competitive tendering, the whole credit rating in South Africa changed. So, we were working at a macro economic level.

I mean, when I get involved in this, although - I mean, I brought a degree of sophistication to British Aerospace's defence marketing they'd never adopted before. I mean, they way they did deals -

G MURPHY: Who else did you use to help you achieve that? You've mentioned Richard Charter.

A MCDONALD: Richard Charter, really, he dealt with Air Force at the end, but he really could - the Ministers really didn't like Richard because they still saw him as part of the old regime. So, there was always a suspicion about Richard, but he was very proactive in supporting our - he, intellectually, he was a very smart man. And as soon as - he was, if you can imagine, old regime, but trying to get with the new regime and he thought the old ways were the ways to do it, 'til I said we're not doing it with the old ways. We're going to do it with the proper ways. And so he fell into line very quickly and started to try and develop relationships. He met with Ministers. He went round lobbying Alec Erwin, Stella Sigcau, Joe Modise. But they felt very uncomfortable with him because they saw him as very much part of the old regime. You know? But it was really direct, it was - we used Ministers going down. We briefed through

Charles. We prepared DESO briefings. So, we had a whole series of Ministers. If you look at - I mean, John Major was down. John Major. Tony Blair was down. I mean, when each successive Prime Minister and all the Ministers. Every time a Minister visited, we, British Aerospace, worked with DESO and prepared a briefing to give to the Minister.

So, if you said to me, how did we achieve this, we achieved this, effectively, through the British Government - through DESO explaining to their counterparts - the Finance Minister, the Economic Minister - that going through proper -

G MURPHY: How did you get access to those people?

A MCDONALD: Because that's how DESO and British Aerospace works. I would -

G MURPHY: Right. So, you used those contacts to get to high level Government support.

A MCDONALD: Yes. I would brief Charles. We would prepare briefing papers. We would then get his guys - Steve Meighan, who works for British Aerospace at the moment, was Charles' aide-de-camp.

L JONSON: At DESO?

A MCDONALD: At DESO. He was like, and I used to prepare all these briefings. I get our guys to, like - if you said to me, right, I would say, this is our footprint in South Africa. This is what British Aerospace looks like - and warts and all I would describe it and I would describe what I thought we should be doing. But, I was saying, but the difficulty in doing that is, forget British

Aerospace, just Britain isn't viewed very popularly. I mean, British is seen as supporting an unprofessional approach to defence procurement. So, you can, but imagine the DESO pressures because GEC, who's a big, big company - Sir Arnold Weinstock at that time pushing the British Government to be supportive of its efforts in South Africa and at the same time me trying to pull the rug from underneath them, because if we do this, we'll never do any more business, because it was seen as wrong. But, fortunately for us, GEC turned all their attention to Brunei - to the frigates in Brunei - what I had control over as well. And if you watch what I did in Brunei, I pulled back. We had done an MOU for a Hawk. So, we're trying to get the business in Brunei; the GEC are trying to get the business in Brunei. They were better positioned than us, if you want the honest view. So, I pulled back the Hawk effort. They suddenly saw they're getting a frigate programme through that, so they poured all their energy into Brunei and totally misfired and were criticised, lambasted. Joe Modise was criticised very, very severely, but because we persuaded Joe - and if you said 'we', who was we? - Charles - Charles Masefield - the Defence Ministers at the time. Every time that one went down, we'd work on defence procurement. Myself, because I got - my first introduction with Joe Modise was at the

Farnborough Air Show, I think in 1994 and if you look at - there's a question asked in the House of Parliament, did Joe Modise visit Britain in 1994? And it says there's no record of it. Well, I know he did, because he - there's pictures of him at the Farnborough Air Show and I was asked to fly him in a Jetstream up to Clyde, to Prestwick, so he could go to a Robert Easton function on the Clyde they'd organised for him to try and help the frigate programme. So, I know that Joe was there, because that was my first introduction to Joe Modise. So, British Aerospace - and I flew in the plane with him, talked to him about, they already had Jetstream operating. So, I got to know Joe and I met Ronnie Kasrils in the same trip. So, that was my first introduction to the Ministers, through giving them a lift from Farnborough up to a meeting.

And then I found out - and it was just at the time I'm taking over as well, so I'm starting to just get some knowledge - but he gave me his card and told me to go in and see him. And, I must admit, Sir Robert Easton and I, and Murray Easton, who is his son, I knew very well indeed. So, I was always seen as a Scot, favourably looked upon by the Eastons, but privately undermining everything they were trying to do in South Africa, because I believed it was bad for the process.

I don't want to blow my own trumpet too much at

that stage, because I think the real influences were very much Charles Masefield and Alex Roberts. They were the ones who - once Alex realised that DESO was prepared to support a proper defence procurement - a defence review and a proper defence procurement - he poured a lot of energy into making that happen.

G MURPHY: Right. So, if you needed to get a meeting with Joe Modise, would you get somebody else to arrange that for you?

A MCDONALD: No. After that trip - that's the first time and that was September 1994, I think, you'll find is that first time - I could phone Joe any time to get a meeting. I got on so well with him and that. Because I flew back down as well. He was drunk. He'd gone to a whisky drinking competition with Robert Easton, who's a great whisky and when I got him the next morning, he was a terrible state. So, I filled him up with coffee and when he arrived at Farnborough, I looked after him so well and he was.

Joe Modise was quite a special man. I mean, he said to me one day, **I've killed more people than you've had hot breakfasts, Allan.** Because he was a big terrorist as well, so you know, but a very clever man. You know, so. But I got on well with him. **So, I could get to see Joe any time I wanted and through Joe, I got to know Fana, because Fana was Joe Modise's legal adviser.**

What - **so we're clear about this, Fana was Joe**

Modise's legal adviser, but do you remember I mentioned the young men behind the scenes? Fana was a Thabo man. Every ministry had a Thabo man in there. So, give the old men their day in the sun, but their lieutenants were all Thabo appointments. So, Thabo knew everything that was going on. And Fana, who is probably one of the smartest men I've ever met in my life - I mean, really smart man - he was the adviser to Joe. And for about four or five months, I didn't have much interface with Fana, but he just watched me. He was amazed that I could get in and see Joe back and forward. He was amazed that I -

G MURPHY: What was his position at that time? I know he was an adviser to Joe Modise.

A MCDONALD: He was legal adviser to the Ministry of Defence, I think was his position. He was legal adviser. He's a trained attorney and he was legal adviser to the Ministry of Defence. So, he covered. He was adviser to everything, to arms. Anything that the Ministry of Defence did, he gave a legal perspective.

G MURPHY: Okay. So, he wasn't a Minister in any way himself?

A MCDONALD: Never.

L JONSON: Do you know who he was employed by?

A MCDONALD: I'm sure he was a Government employee. If you'd said to me at that stage, I'm positive I would say to you, undoubtedly so he was a Government employee. I'm absolutely sure of that.

G MURPHY: Right.

A MCDONALD: The reason I know, the reason I can tell you that is because I advised him. Fana saw great changes taking place and he wanted to, he saw all these representatives of different companies. Because, remember, there was, I mean, eventually, I don't know if you know this, but the German adviser was jailed afterwards. Did you know that?

L JONSON: Which one?

A MCDONALD: After the defence review and all the contracts were awarded, the German adviser was jailed and Fana had to get him out of jail. This was the Robbie Roberts equivalent - the German equivalent - was jailed. The representative for the German companies was jailed. The French guy had to escape the country. You know?

L JONSON: So, the ThyssenKrupp representative? The German, the frigate consortium?

A MCDONALD: The frigate consortium - well, no, it was the DASA man that was imprisoned because he gave them all - it's quite well known. You can look on the Internet. He gave them all free Mercedes.

G MURPHY: Yes. I've seen that.

A MCDONALD: But Fana knew these guys. He knew - everyone that came to see that Minister of Defence, Fana knew the French network, the Spanish network, the German network. He knew every network. And when I realised he knew every network, he became a close friend of ours, you know, and there's a

promise?. Because, he became a close friend, but he became a close friend because he understood everything that was going on. But why I know, why I can almost positively say he was a Government official because I told him that he had to get out of Government if he ever wanted to benefit from a relationship with British Aerospace. I told him he had to leave Government. And at the end of Mandela's reign, he resigned from Government.

G MURPHY: Right.

A MCDONALD: I think he resigned when Joe resigned - Joe Modise. I'm almost convinced he resigned. You'd have to check that. I'm - this is my, to the best of my knowledge, that is the situation.

G MURPHY: Okay. Okay, we better stop it there. The time by my watch is 10 past 12. The time elapsed counter is showing 45. We'll stop the tape.

(End of Tape 2)

TRANSCRIPT OF INTERVIEW HELD AT TODS MURRAY LLP, SOLICITORS,
EDINBURGH QUAY, 133 FOUNTAINBRIDGE ROAD, EDINBURGH EH3 9AG ON
TUESDAY, 14TH AUGUST 2007.

CASE REFERENCE RLI02

TAPE 3 OF A BATCH OF 14

PERSON BEING INTERVIEWED: MR ALLAN MCDONALD

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MR PETER PATERSON	-	SOLICITOR

B SMITHWHITE: This is the start of tape three of the
Section 2 interview with Mr McDonald. The time
by my watch is 12.19. Please can you confirm,
Mr McDonald, that we have not discussed
any matters relating to this case during the
interval since the end of the previous tape?

A MCDONALD: I can confirm that that is the case.

B SMITHWHITE: Thank you.

G MURPHY: At the end of the last tape we were discussing
how marketing was beginning to change in
South Africa upon your arrival.

A MCDONALD: Yeah.

G MURPHY: And we were talking about how you got to speak

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Corrected Transcript

to people like Joe Modise etc., etc. I'd like to just go back a little bit because you're painting a picture here that we can see you heavily involved in dealing in on a face to face -

A MCDONALD: Yeah.

G MURPHY: - basis with government ministers in South Africa. You've explained the way DESO were getting involved, and I think you also said, correct me if I'm wrong, that, if necessary, UK government would get involved if that was -

A MCDONALD: Yes.

G MURPHY: - required as well. So, obviously, a lot of people pitching in as this new procedure took, took shape.

A MCDONALD: Our efforts through government, through UK government was all conducted to DESO.

G MURPHY: All through DESO?

A MCDONALD: All through DESO who would then contact other government ministries and get involved.

G MURPHY: Okay.

A MCDONALD: Sports minister, all sorts of ministers involved. You know, anything to do with sports, we'd give them a briefing on what our objectives were, sort of -

G MURPHY: Yeah.

A MCDONALD: - so it crossed right across the spectrum of any government minister, UK, coming to a South Africa was briefed.

G MURPHY: Right.

A MCDONALD: Yeah. And remember there wasn't just when I mentioned the defence support, the British government was giving, they had the sports people down there as well -

G MURPHY: Yeah.

A MCDONALD: There was a complete spectrum of government to government support programmes going on and we just used that to create a goodwill feeling.

G MURPHY: Okay. What, you've mentioned Richard Charter and you've explained what he was doing.

A MCDONALD: Mm-hmm.

G MURPHY: You've mentioned what Robbie Roberts was doing and his vast knowledge in the, in the -

L JONSON: Alex Roberts.

A MCDONALD: Alex Roberts.

G MURPHY: Sorry, Alex Roberts, thank you. And, what I'd like to get a feel for now is what was going on? Were there other advisors involved at this stage?

A MCDONALD: Well, in terms of, in terms of, yes, yes, but in terms of, I believe I know, ultimately, who all the advisors were, right. But let me explain in terms of if you're talking about active, active in the programme as opposed to passive, if I could draw the line. Because we adopted advisors, for what reason I never knew, right, that stayed the life of the programme. But there were people, for example, when I first met Joe Modise and flew in the aircraft to, I took to the Robert Easton Dinner on the

Clyde side which I did not attend but I flew them to Prestwick and then cars took them when they came back to Prestwick and then I flew them back down, back to the Farnborough Airshow so, Alan Curtis was with Joe Modise at that point and that was really my first exposure to Alan Curtis as well. I was then advised by Dick Evans that Alan Curtis was a long-term friend of British Aerospace. Now, Alan Curtis was very friendly with Denis Thatcher -

G MURPHY: Mm-hmm.

A MCDONALD: - and, the name escapes me at the moment, but in the Saudi Arabian dealings one of Mark Thatcher's friends -

L JONSON: I think we might know the name.

A MCDONALD: - yes, was a great friend of Alan Curtis's and so Alan Curtis was influential with the government in the terms of Denis Thatcher to Mark Thatcher to the, I never knew this guy I just know that Alan knew him very well but he was, he was, I heard his name mentioned. How he ever got involved in the Saudi, having, knowing my knowledge of Saudi Arabia and British Aerospace, how this guy ever got involved in the Saudi scene, I do not know but I think it was because of potential involvement of Mark Thatcher.

But, so, just so's you're clear, that Alan Curtis had somehow befriended Joe Modise and was exceptionally close to Joe Modise.

Dick Evans knew Alan Curtis and told me to befriend Alan Curtis as well. And we got a lot of messages to Joe Modise about how things - and in fairness to Alan Curtis, he did promote, when I took him through the process of how Joe could suffer seriously politically if he went through a non-compete programme, he was the one that really, I think, would have convinced Joe ultimately to broaden the whole thing up. So, Alan Curtis was a very key individual to us.

G MURPHY: Right.

A MCDONALD: My first introduction to him was during that flight and when I backtracked through Aerospace who else can I, I find that Dick knew him and Dick knew him well. Tipping, Tipping?

L JONSON: Steve Tipping.

A MCDONALD: Steve Tipping, that's the name of the guy. I don't know him but that was the name of the guy. Mark Thatcher, Steve Tipping, Alan Curtis, Denis Thatcher. Alan Curtis used to go for tipples at number 10 in the evening, whisky tipples with -

G MURPHY: Mm-hmm.

A MCDONALD: - with the Thatchers. So, that's how close that relationship was. Dick knew that and Dick told us to use the good offices of Alan Curtis. Alan Curtis had a son in South Africa was involved in safari and so he had some South African contacts and had befriended Joe Modise, had befriended Joe and was very close to Joe. Very close indeed to Joe.

G MURPHY: Right.

A MCDONALD: So, and it was indicated to me by Dick very early on that we may have to embrace Alan Curtis into our sponsorship arrangements, our commission arrangements or agency, whatever you want to call it, that we may have to engage Alan in that process -

G MURPHY: Right.

A MCDONALD: - to keep his goodwill on side.

G MURPHY: Okay.

A MCDONALD: And that they had, they had, in British Aerospace records I believe Alan Curtis had been engaged as an agent before but had never, we'd, the campaigns had never proved successful so he'd never - he, one of his complaints that he'd helped British Aerospace all around the world and none of the deals that he was involved in ever came off and he'd never benefit, so he saw the South African as one in which he could benefit.

G MURPHY: Okay.

A MCDONALD: And so, and eventually I proposed that he receive a benefit. I would, I would have made that proposal but only, I believe, that when I was convinced that he could do a job for us and -

G MURPHY: Yeah.

A MCDONALD: - I believe he did do a job for us. I think he had a big positive influence over the minister, about the minister. And if you say what regard, in that the minister had taken a more broad and

enlightened approach to the whole defence procurement in that regard.

G MURPHY: Right.

A MCDONALD: That's how I felt he was very influential.

G MURPHY: Okay. Were there any other advisors or operatives at that early stage in '94?

A MCDONALD: Well, no. Okay, so, he was, he was active -

G MURPHY: Yeah.

A MCDONALD: I'll give you the active advisors.

G MURPHY: Yes.

A MCDONALD: Richard Charter was active in two fronts. There was a covert and overt, a covert and an overt agreement where we would declare Osprey, but he also would be beneficiary through another arrangement which Hugh Dickinson managed all that process. I was aware and I supported that process for Richard Charter. I believed he was value for money.

Richard Charter's - how these people benefit from their activity in terms of what makes them agent is the managing director of the region has to bless them off, recommend them. It goes through a committee, the committee says yes and under a separate arrangement altogether of which the managing director is not involved, a guy called Hugh Dickinson used to execute all the agreements. So, if you imagine the processes, I would think that Joe Bloggs would be very useful to us. I'd make a recommendation to a very select committee, that committee would argue or challenge it, agree it, or it was

thrown out, agree it and then it was passed for execution to Hugh Dickinson who, he and one of his team sat and minuted everything that was said at those meetings. So, they were, not only the execution of the agreement, but they also took the minutes of the agreements.

G MURPHY: Right.

A MCDONALD: And he would execute, and the managing director would not be involved in the interface of execution. So, the managing directors never saw the agreements and never saw the final settlement arrangements but always understood whatever they had proposed, not the, not all the contract terms and conditions, but the sum or the element, the fee was, what they proposed was incorporated into the agreement, and that was always my understanding. And I would have, I would have proposed, so, in terms of who I would have proposed, in terms of agents -

G MURPHY: Yeah.

A MCDONALD: - through my own evaluation, if you're saying, right, well let's talk about, I proposed, undoubtedly supported Richard. Richard Charter was already, had already agreements with them. I supported the continuation of those agreements -

G MURPHY: What company was that through?

A MCDONALD: Osprey, Osprey, but he used another company. You see, we never were exposed to the company names but I would say, yes, support the

overt and the covert agreement. And then Hugh Dickinson would then put the Osprey agreement in place which would be overt agreement and whichever, and people changed their companies all the time and I didn't track which companies they were using because that was not an element -

G MURPHY: Yeah.

A MCDONALD: - I left, it was like a separate branch of the company.

G MURPHY: Why would they change their companies all the time?

A MCDONALD: Tax reasons or all sorts of reasons, you know, all sorts of, I mean, when you deal with the Swiss [inaudible] they tell you to change their companies every week. I mean, it's just the way these things, I mean, it's fees, it's fee related. I think it's lawyers and bloody accountants just making money out of these people. But for, I'm sure for tax reasons or for change, for example, if you were based in country A and it changed its, or - I mean, all the time you've got the advanced western countries putting pressure on the countries that don't really recognise them to change the taxation or their declaration practices, and every time that happens all these people of companies and these move to these companies, and they're moving around regime under regime and that's what, there's a, there's a, you know, there's an

industry doing this.

G MURPHY: Mm-hmm.

A MCDONALD: There's an industry doing this.

G MURPHY: Yeah.

A MCDONALD: And this is why in Hugh Dickinson's regime all the agreements, to my knowledge, were signed in Switzerland and kept in a bank, and it was only ever, to my knowledge, only ever one copy of agreements and were kept in a bank, Lloyds Bank. I never visited it but I understood you picked things up, was kept in a vault and could only be accessed with agreement of both parties, and once the payments were made the agreement was torn up was always my understanding of how the process operated. But, there was no occasion when I ever sat down, was there at a signing or was there at any of the payments made. There was no occasion when I, was I at any time in my career at British Aerospace, party to any of that.

G MURPHY: Okay.

A MCDONALD: I can only tell what I believed happened once we agreed at committee level.

G MURPHY: Okay. Let's go back to Richard Charter -

A MCDONALD: Yeah.

G MURPHY: - and you mentioned Osprey -

A MCDONALD: Yeah.

G MURPHY: - as an overt -

A MCDONALD: As an overt -

G MURPHY: Yeah. And he's an active agent at this moment in time, 1994.

A MCDONALD: Declared, declared as a BAE's representative in South Africa -

G MURPHY: In South Africa.

A MCDONALD: - and his company was Osprey. So, it was overt to everyone in South Africa -

G MURPHY: Yes.

A MCDONALD: - that Richard was representing British Aerospace.

G MURPHY: Okay. Where did the covert side come in?

A MCDONALD: Well, because in the overt you have to declare commissions under the, under the ARMSCOR arrangements. If you're doing a deal you have to declare commissions. So, we would declare in our submission, in our final submission, well, I wasn't there we made our final submission, but I believe they would have had to declare Richard's Osprey agreement in that.

L JONSON: Why would they not have had to declare his other agreement?

A MCDONALD: Because, because it was never, well, perhaps technically they should have had, I mean, I don't know the answer to be perfectly honest, but I think technically if you say legally would they be obliged, perhaps under South African law they would be but it's not something, but normally the covert agreements were never disclosed to anyone.

L JONSON: So, the customer wouldn't know, so the South African government -

A MCDONALD: Government would -

L JONSON: - know?

A MCDONALD: What I'm trying to say when I use the word, covert -

L JONSON: Mm-hmm.

A MCDONALD: - was that this was an open agreement and I believe under the ARMSCOR arrangements - and ARMSCOR was changing its regulations all the time -

G MURPHY: Mm-hmm.

A MCDONALD: - but I believe that at some place in our process, in our submission, in the final submission on which the contract would be based, Ospreys, Osprey's payment would have been declared, would have been openly declared

G MURPHY: Right.

A MCDONALD: - and would have been known about in South Africa. None of the other agreements.

G MURPHY: But the covert -

A MCDONALD: None of them.

L JONSON: None of the other agents?

A MCDONALD: None of, none of anybody else's agreements would have been declared because they were all covert.

L JONSON: Okay. So, everyone, because, obviously, you've seen from the disclosure that we've given you, there's, Richard Charter has the split-agreement -

A MCDONALD: Yes.

L JONSON: - but the others -

A MCDONALD: What you have is, to my knowledge, a comprehensive record of every party that was party to agreement, and I'll go through them if

you want, but to my knowledge you have a record of everyone who is party. I just want to distinguish between those that, to my mind, merited -

L JONSON: Sure.

A MCDONALD: - merited their involvement -

L JONSON: Yeah.

G MURPHY: Yeah.

A MCDONALD: - and those that did not merit their involvement.

G MURPHY: Yeah.

L JONSON: Okay.

A MCDONALD: Now, to my -

G MURPHY: Sure.

A MCDONALD: - I'm not the ultimate judge as to -

L JONSON: Sure.

A MCDONALD: - who brought value or who didn't, but I felt I was in a very good position to judge.

G MURPHY: Absolutely.

L JONSON: One of the reasons we're here.

A MCDONALD: I thought it was a very good position to judge who was in a good position and who wasn't. Alan Curtis certainly, he earned his comm.

Richard Charter, once we got Richard -

G MURPHY: Can you remember Alan Curtis's company?

A MCDONALD: Well, I can tell you, I mean, when you, when you, I can tell you whose company they are when you point, I mean -

G MURPHY: When we go through them, okay?

A MCDONALD: Yeah. If you said -

G MURPHY: All right.

A MCDONALD: - to me I could not have named the companies yesterday, but as soon as I was going through with Peter and I said who, well that's such and such's company.

G MURPHY: Right, okay.

A MCDONALD: You know, I can, you know, it helps but I can go through -

G MURPHY: We'll pick up on them specifically when we go through them.

L JONSON: I don't think there's any contention. I think it's quite clear what you -

G MURPHY: Yeah.

A MCDONALD: But I can, at one stage when it's appropriate I'll go through -

L JONSON: Sure.

A MCDONALD: - and tell you who I believe -

G MURPHY: Okay.

A MCDONALD: But the company's names have changed since, if you look at your early details, there's ones -

L JONSON: Yeah.

G MURPHY: Yeah, they did change.

A MCDONALD: - I don't for the final ones, but I can almost tell you that we'd never have introduced any other parties. I mean, there were already too many agents. This project was full of too many agents at too high a levels commission.

G MURPHY: Yeah.

A MCDONALD: I mean, you know, let me, let me, if I can finish to deal with those I believe to, who were proactive.

L JONSON: Right.

G MURPHY: Proactive, yeah.

A MCDONALD: And then I'll deal with who I believe were the other -

G MURPHY: Okay, yeah.

A MCDONALD: - agents. So, I believe that, that Alan Curtis certainly was proactive. Richard Charter was proactive and Alex Roberts, to my mind, was the most influential man in the project.

G MURPHY: Right.

A MCDONALD: Not latterly. Not once the down-select had taken place. He had no influence to BAE whatsoever I don't believe at that stage, after that stage. But to get us, to get us to where, I mean, if you can just imagine, you've been dropped into South Africa. You're a clever, you've got a great brain, you've sold commercial aeroplanes but you're dropped into South Africa and you're involved with defence procurement with government ministries, a whole new regime and not knowing who to turn to. Jerry Wooding never having visited the country is supposed to be in charge of it, you know?

G MURPHY: Mm-hmm.

A MCDONALD: Old, Robbie Roberts just wanted to drink gin and tonics with air force. I mean, I mean, I can't tell you how unsophisticated it was.

G MURPHY: Mm-hmm.

A MCDONALD: And it wasn't just in South Africa with BAE. What I believe, why I was very disappointed with the ultimate outcome is that I believe that

commercial aircraft under Sir Charles Masefield's regime, we adopted a very sophisticated approach to marketing. You know, mapping process, who all the, I mean, for instance, British Airways, who the chief engineer was, who was in charge of avionics, who was in charge of propulsion, who was the ultimate decision-makers. But we'd target them all just to make sure that our case was well heard, well understood. Nothing like that in the military. I mean, it's like, you know, it was like, you know, well, if we can get such and such to influence the situation, you know, whatever way it happens and I thought, you know. And it wasn't in a proper democratic environment. That's not the way you're going to do business.

G MURPHY: Mm-hmm.

A MCDONALD: And so I brought that with me. I brought a degree of sophistication with me which I'd learned from Charles. I gave him the credit of how sophisticated he'd been. He was 100% and he brought that into DESO as well. He changed DESO to be far more - I mean if you talk to Steve Meighan, Steve Meighan will tell you, I think, that my time in Aerospace helped change DESO's approach because Charles came in just at the same time as I was there and we adopted a more sophisticated and more governmental approach. And so my pride in the South African deal is we

took a deal that we were trying to push through through all sorts of weird and strange methods into a sophisticated process where we had to go out win our tender, win the competitive select and then go on contract. And so when you've got all this investigation going on to me it takes away from a lot of the effort -

L JONSON: Mm-hmm.

A MCDONALD: - and we're meant to try and put it on a proper footing.

G MURPHY: Mm-hmm. Yeah.

A MCDONALD: You know, that's -

G MURPHY: Yeah, yeah.

A MCDONALD: - that's, but everyone has their job to do so I'm just describing how I saw it.

G MURPHY: All right.

A MCDONALD: So, Richard Charter bought into this concept 100%, became always active with the ministers where he could, but wasn't really held in great regard so he had little influence over the ministers. He thought, he thought they loved him, I can tell you they, they saw him always as part of the old regime. So, I never relied on his influence with the ministers. Like, if you say what influence? He would take to the ministers why they would want to take a stake in ATE, for example, he was very close to the order of ATE and he wanted South African government to take a stake in ATE which was one of the defence companies down there. That was owned by a French guy that was

very friendly with Richard. But we had a strategic reason because British Aerospace wanted to get hold of electronics with what we're doing with GEC. ATE was the type of company we wanted to take a stake in anyway. So, it wasn't because of Richard's pal that we wanted to take a stake, it was because we saw a strategic reason. But Richard thought that he would use his good offices and sometimes he was, you know, worse than help -

G MURPHY: Mm-hmm.

A MCDONALD: - in trying to persuade the ministers because when the ministers saw anything that Richard pushed off they tended to back off.

L JONSON: Right.

A MCDONALD: I told him to concentrate on the air force. Now, just a bit about his background. He was, he had a, Osprey have a company that supply parachutes, that's Osprey Aviation supplies parachutes, and he was in the world championship, South African world championship parachute and they won it, the world championship. So, he was seen, and he flew aircraft himself, so he was seen by the air force as an aviator and was very close to Chief of Air force and head of maintenance of air force and the ARMSCOR people. So, he was seen as old South African. Although the air force adopted the new regime or seem to adopt it, there was still very much the mindset of old South Africa.

But he, the three people that brought air force on side, if you say, how did we win the air force over? Three people. Richard Charter who was a South African we used. He did a great job. By the way, just to, just to emphasise the point I made earlier, Tebbit, Michael, not Michael Tebbit, Tebbit that was a government minister?

L JONSON: Kevin.

A MCDONALD: No, no.

L JONSON: Norman.

G MURPHY: It was -

A MCDONALD: Norman Tebbit, thank you. Norman Tebbit -

L JONSON: Lord Tebbit.

A MCDONALD: Lord Tebbit, but he wasn't Lord in those days. When air force had, and this would be about a year before the down-select, when the air force had one of their events we'd get Norman Tebbit to come, he was doing a ministerial visit, and he was trade at the time, he then spoke about the need for South Africa to broaden democracy in Africa but we sponsored, British Aerospace and the air force sponsored the event for him to come down and speak and a wide audience, more than just air force, a lot of ministers came, and Lord Tebbit said a wonderful speech about how, if Africa was going to sink and die a death as a dark continent it would be because South Africa didn't stand up and play its role. So he encouraged good democracy and encouraged his defence procurement programme going about it

in the proper way. So, he came and spoke, just to show you the sort of influence we had. We'd got him come down and spoke. And it was a number of government ministers. And I, I mean, the best way to get is to go to DESO and ask them for a full schedule -

G MURPHY: Yeah.

A MCDONALD: - of all the ministerial visits, and I think behind that you'll see that we prepared a lot of the briefings.

G MURPHY: Mm-hmm.

A MCDONALD: You see, we would, what we did is, what I did was I'd get much closer to the defence organisation and to the foreign office. I shared with the foreign office what we were doing. With Sir Charles we'd go along and brief the foreign office, and Bruce. So, British government was very much aligned to doing it properly, doing the job properly. Richard Charter, air force man. Alan Curtis, Minister of Defence. He was closer to the Minister of Defence and positively influenced him to think broader. Now, the rest -

G MURPHY: You were about to tell us Richard Charter influenced the air force in three ways, or a number of ways. You -

A MCDONALD: No, I said three parties influenced the air force.

G MURPHY: Yeah.

A MCDONALD: Three parties. Richard Charter, Sir Patrick Hine who was the military advisor to

British Aerospace. He was the top military advisor. He was number two during the Gulf war, and he ran the Gulf war from the bunker, Sir Patrick Hine, and he was British Aerospace's world-wide military advisor.

L JONSON: Was he employed as a -

A MCDONALD: Yes, full time -

L JONSON: Right, okay.

A MCDONALD: - British Aerospace employee. And he's a remarkable man let me tell you.

L JONSON: Right.

A MCDONALD: He's quite a remarkable individual. He didn't know anything of the commercials of the affair.

L JONSON: No.

A MCDONALD: He didn't, if you said, if you asked Paddy anything about what was going on commercially he would not have a clue. But come down and talk about - so when air force, so we brought Sir Patrick in who was number two in the Gulf war -

G MURPHY: Yeah.

A MCDONALD: - he did about 20 visits to South Africa. I mean, he must have done at least that. Now, to meet air force -

L JONSON: Right.

A MCDONALD: - to talk about the aircraft and the operational issues. He would bring the Chief of Air force from Sweden down and so it was an air force to air force, air force boy to air force boy.

G MURPHY: Yeah.

A MCDONALD: I mean, if you know how the air force operate, it's very, across the world, air force to air force is, you know. So, he did a fantastic job in getting to understand the product, understand it.

G MURPHY: Okay.

A MCDONALD: Very much so in the Gripen, very much so. The Hawk, he got there very easily. We brought the Red Arrows down. We, British Aerospace, funded for the Red Arrows to come down during one of the air shows. The year before, the months before the down-select, British Aerospace funded through DESO for the Red Arrows to come down to South Africa. If you go and ask for the budget you'll see we, I think, put half a million pounds into that budget to bring them down to South Africa.

L JONSON: Right.

G MURPHY: Mm-hmm.

A MCDONALD: So, you know, that was part of the Hawk programme -

G MURPHY: Yeah.

A MCDONALD: - and they flew down, they flew down there. You know, Sir Patrick was there during that whole visit. And then I engaged a guy at Sir Patrick's recommendation called Niall Irving who's still at British Aerospace, but he was at, kind of, root captain level and he, his job was to stay on the air force full time. To stay keeping air force on side during the whole campaign. And, Niall did a very good job

keeping the air force warm to the product.

G MURPHY: Who did he liaise with on the air force side, can you remember?

A MCDONALD: All the chiefs. The chiefs throughout this whole period. In fact if you gave me a, I can't recall the names, but I could go through any of the current names. Stein -

L JONSON: Hechter, Eric Hechter.

A MCDONALD: Hechter, Hechter. He was chief, he was deputy and then chief.

L JONSON: Mm-hmm.

A MCDONALD: Very nice man. And Niall, and he was very close to - but his predecessor -

L JONSON: Esterhuyse?

A MCDONALD: No, no. No, he came later. The Chief of Air force, I can go and research it. If it's any help I can go and research the names for you. I just don't have them at the tip of my tongue.

G MURPHY: We can look to see whether we have names.

A MCDONALD: Whoever was Chief of Air force, let me just - Hechter became Head of Air force after this man's name, I can't think of who, Chief of Air force and organised the fly past to the present. So, whoever was Chief of Air force -

G MURPHY: Okay.

A MCDONALD: -at that time was then succeeded by Hechter.

L JONSON: Right.

A MCDONALD: He, this guy was, was a great chief, a great chief. He was the one wise enough and he was close to Sir Patrick. If you talk to

Sir Patrick he'll tell you every name in the air force.

L JONSON: Mm-hmm.

A MCDONALD: Talk to Niall Irving and he'll tell you every name in the air force. And do I believe, I do not believe, for what it's worth, I do not believe there was any material, I never approved any influences to any air force officers. I, it was never on our agenda to influence any ARMSCOR or any air force officer for any financial benefit whatsoever. Never. We had to win it on the argument of the product.

G MURPHY: Right.

A MCDONALD: What we'd do, we'd take them to Farnborough air show, we took them to Sweden. We organised jollies, you know.

G MURPHY: Yeah.

A MCDONALD: Technology and jollies, the things that would have to be done anyway.

G MURPHY: Yeah.

A MCDONALD: The evaluation of aircraft. But when they got there we made sure they were well looked after. Wherever they're hot buttons were. If they liked particular parts of the aircraft, simulator. Some of them loved to fly simulators of different types. We organised all that sort of thing but to my mind there was never any undue influence exerted on air force or ARMSCOR personnel.

G MURPHY: That wasn't part of the -

A MCDONALD: That wasn't -

G MURPHY: - Remit.

A MCDONALD: - what I call a very professional winning strategy without any undue influences. I think it was, I don't believe that Sir Patrick nor Niall Irving would participate. Richard would. Richard would do anything to win the business, but those guys would not, you know.

G MURPHY: That was Richard Charter?

A MCDONALD: Yeah. He would do anything to win the business. He would take any actions. He was a bit of a maverick. He would take any action necessary to win the business.

G MURPHY: Are you aware of him ever taking any action to, to -

A MCDONALD: No, no.

G MURPHY: - pay monies to -

A MCDONALD: I mean, no, I'm not but I know that he often talked about it and he, you know, that's when we ran foul of me. I mean, Richard, I mean, I really had Richard -

L JONSON: When you say he often took, I mean, can you give us any examples or...?

A MCDONALD: Well, he would talk about, you know, like putting on retirement funds for the air force officers after they retire. Maybe we should do something like that, and I would shake my head. This was the old, this was the old ways of doing stuff.

G MURPHY: This is what I was going to come back to. I made a note to come back to it. You talk about

the old regime which you, and, you know, the gin and tonics and all that, did the old regime go as far as, you know, paying monies in some way, of setting up retirement funds? Is that all part of what you see as the old regime?

A MCDONALD: Well, it's what I believe to be the old regime. I mean, I don't believe, for example, if you want my honest, I have no knowledge of how military aircraft operated before I joined -

G MURPHY: No.

A MCDONALD: - I had no knowledge. Except when I was in Saudi Arabia, going way back to my early days in Saudi Arabia, on letters of credit 4247, 4248 and 4249, large commissions were added to the price. In some cases 27.5% were added to the letter. So, if we did a service, a letter, 27.5% was added to it and invoiced, and British Aerospace benefited only to the tune of 7.5% of that. So, 20% went elsewhere but I never knew where.

G MURPHY: Right.

A MCDONALD: But I knew that British Aerospace, this is going way back, this is the Al Yamamah one.

G MURPHY: Yeah.

A MCDONALD: So, my exposure to, to the way military operated is you buy success, but that's fine if you're dealing with non-democratic countries but most of the people that I was dealing with in Asia, and it was getting more and more sophisticated, it was, it was - I was wanting to do it on the basis of what we did in commercial aircraft and

won the business through the great technical advances that we had, good air force, good product.

G MURPHY: Yeah.

A MCDONALD: But there was, there was all reaction, and what they were saying is, there was a Channel, I watched the Channel 4 programme about the John Bredenkamp, you know -

L JONSON: The Dispatches programme in 94?

A MCDONALD: Yes, yeah.

L JONSON: Channel Four?

A MCDONALD: Yes. I watched that so I knew about who John Bredenkamp, and I knew that Robbie was very close to him and I knew Robbie would, you know - Robbie, Robbie's way was to buy the deal.

G MURPHY: Right.

L JONSON: Robbie Roberts?

A MCDONALD: Yeah. I mean, I mean, probably, in fairness, I mean, it's not a criminal thing to say but, I mean, I'm just talking about mindset. The British Aerospace mindset was you have to, in countries where there's a single decision-maker, is you've got to positively influence the deal to his economic benefit. That was the way that these guys thought. And I came in at a time where - and the reason I believe I was asked to come in and look at the overall marketing was because I was bringing a much more sophisticated approach to -

G MURPHY: Do you -

A MCDONALD: - I was bringing a commercial approach to

defence marketing.

G MURPHY: Yeah.

A MCDONALD: I've no knowledge that these payments ever took place.

G MURPHY: Right. That was going to be my question.

A MCDONALD: No knowledge that the, I just, I just understood that that was the culture.

G MURPHY: How did you come to understand that then?

A MCDONALD: Well -

G MURPHY: Something must have triggered off in your mind, I'm not so sure that's -

A MCDONALD: Well, when you met, when you met Bredeknamp and Jules Pelissier and Robbie Roberts. My first introductions were not easy introductions but once, I mean, I've got an ability to get with just about anyone but it doesn't mean that, you know, you know, actually I hold a lot of people in great - I have a great regard I must tell you for Jules Pelissier, I feel he's a top-notch professional. But I think I influenced him very positively because I think the Bredeknamp approach to things was, let's buy our success, right, and I forbade that. I did not want that to happen. So I used to stop them doing things. I mean they'd suggest things and I would stop it because I didn't think it was beneficial.

G MURPHY: Can we -

L JONSON: Yeah.

G MURPHY: - can we come on to that, I think, because

that's, that's going to be a very interesting part and I'd like to spend a fair bit of time going into that. I'm -

A MCDONALD: So, going back then, so Richard -

G MURPHY: In '94.

A MCDONALD: Richard Charter -

L JONSON: Which are the active and passive I think?

G MURPHY: Yeah, that's right.

A MCDONALD: Well, Richard Charter, everyone that worked with me brought into a very - one of the guys that worked for me is a guy called Stewart McIntyre who is, who stayed on in South Africa later, and Stewart was one of the guys I brought from commercial aircraft with me and all we were about was mapping, planning, detailed analysis, finding hot spots, going about it as if it was a commercial aircraft sale, putting that in place. And Sir Charles being then into DESO got the DESO boys doing it. So, it was a great period to be in and to try and positively and be, and be complimented by government ministers but Alec Erwin and Trevor Manuel, Trevor Manuel, Alec Erwin, that was the name I couldn't remember earlier, and Trevor Manuel, we used to have briefings with these guys about why you needed to change the economic status of the country. And there was some great positive discussion -

G MURPHY: Mm-hmm.

A MCDONALD: - and no-one, everyone -

G MURPHY: Who got you access to those people?

A MCDONALD: Joe. Joe Modise.

G MURPHY: Joe.

A MCDONALD: Joe, and eventually Fana but initially Joe.

G MURPHY: Yeah.

A MCDONALD: When Joe saw the, I mean, Joe was proud to show how professional we were. I think Joe, Joe verged from, you know, from being influenced in a sad way sometimes I felt by people that were just trying to push, to understanding new Ministry of Defence regime, and we used Alan Curtis to get him to see much broader and much greater horizons. And he responded well, and he responded, he was very positive about wanting the procurement-

G MURPHY: Were there any more active agents at that, at that time, or any time?

A MCDONALD: No, none, none.

G MURPHY: None?

A MCDONALD: None in my view.

G MURPHY: In your view.

A MCDONALD: None, I mean, there was loads that wanted, there were loads that, let me say that anybody that worked with me in the campaign I told them you'd better do something useful because I'm not supporting your -

G MURPHY: Yeah.

A MCDONALD: - continual annual support. Like, I was introduced - well, do you want me to go through the passive ones now?

L JONSON: Could you just list them so we know we've got everybody?

A MCDONALD: Right. Well, right. Now, the, I was introduced to Bredenkamp and Jules Pelissier by Mike Turner in Mike Turner's office about 1995 and told I must use these people on the programme.

L JONSON: On South Africa?

A MCDONALD: On South Africa. Told they'd already an agreement in place with Hawk -

G MURPHY: Yeah.

A MCDONALD: - which turned out to be a 7% agreement, and I was to use them on any deals we did in South Africa. Told Mike Turner, categorically, to use them. And I would, and I challenged it, I didn't see the value and I was told, right, this is a long out-standing agreement that I couldn't cut across.

G MURPHY: So, this is what Mike Turner told you?

A MCDONALD: Mike Turner. Mike Turner introduced, introduced Bredenkamp and Jules Pelissier to me and continued to support their involvement throughout the whole programme. My view is up to the down-select period, I don't know anything they did to help that process.

G MURPHY: And down-select period was -

L JONSON: October '98.

A MCDONALD: October '98.

G MURPHY: Yeah.

A MCDONALD: And approved by parliament in January '99.

L JONSON: Yeah.

A MCDONALD: So, I think it was put forward and it was approved a formal - it was approved by cabinet and formally approved by Parliament in

January '99.

- L JONSON: Yeah, it would be very late '98, early '99. I think this one is after the Durban meeting.
- G MURPHY: Yeah. When you say down-select we're talking preferred bidder, preferred bidder status? Is that the same thing?
- A MCDONALD: When parliament approved the cabinet's recommendation -
- L JONSON: Yeah.
- A MCDONALD: - on who was going to be invited to tender for the product -
- G MURPHY: Yeah.
- A MCDONALD: - that's when I left. You see, what I got was that parliament agreed with the cabinet decision that these are the people we're going to approach and, subject to the price being right -
- L JONSON: Yeah.
- A MCDONALD: - and the terms and conditions being right -
- G MURPHY: Yeah.
- A MCDONALD: - we want to contract with these people.
- G MURPHY: That's right.
- L JONSON: I think we've used October as the cabinet decision but obviously parliament then ratified that.
- G MURPHY: Yeah.
- A MCDONALD: Parliament, it wasn't, just trust me, the politics at the time, the cabinet decision was an easy one, parliament was a tougher one.
- L JONSON: Right, okay.
- A MCDONALD: Parliament was a tougher one. We didn't think, we did not think it would go through at

parliament.

L JONSON: Okay. So up until you left in February '99 -

A MCDONALD: Yeah.

L JONSON: - you could not see any practical or -

A MCDONALD: I didn't see, I can't tell you that they contributed, that Jules Pelissier and John Bredenkamp contributed in any positive way to that down selection process. I cannot think of any example where they contributed positively. But, having said that, just, so having said that, just so I'm putting my point and its clear, I criticised their involvement from day one, I criticised it a year later -

L JONSON: Mm-hmm.

A MCDONALD: - and Jules Pelissier, in fairness to him, got himself down in to South Africa. We had another guy down there, Trevor Williams I think is his name.

L JONSON: Wilmans.

A MCDONALD: Wilmans, who, all he did was bring me pieces of information about what was going on and what the competitors were up to. I said, earn your comm, find out what this is doing, what they do, what the French do, and in fairness to him he came with hundreds of pieces of information, but I think at every occasion I already had that information. I never found that they were ahead of the game. They were never one step ahead of me.

But I think they grew to respect me enormously because, because I was, I was just - you see,

what they, what you can imagine was, they had this traditional agreement, we're going to be part of this and, you know, and Mike Turner just kept saying, when it really matters that's when we'll see their colours. When it really matters that's when we'll see their colours. So, I was saying, when it really matters. What really matters is let's get the down-select and they did nothing towards that. So that's the first team -

G MURPHY: Okay.

L JONSON: Okay.

A MCDONALD: - that I believe -

L JONSON: We will come to them quite a few times.

A MCDONALD: Yeah, right. The next, the next guy I was introduced to was Basil Hersov.

L JONSON: Yeah.

A MCDONALD: Dick Evans introduced me to Basil Hersov.

L JONSON: Mm-hmm.

A MCDONALD: I was called in to Dick's office in The Strand in Farnborough, introduced to Basil and told that he was to be incorporated into the, that we had a long-term arrangement so anything we did at Africa, in South Africa he was to be incorporated into the deal. And then I asked, naively, well, what's he going to do for me? And he said, no, we just have to honour, it's an old contract. I was told when I briefed, when I took it up with Sid, Sid Gillibrand who is the deputy chairman who took it up with Dick, I was very unhappy with this. You can imagine. Here

we, you know, let's do competitive tendering, let's win the low pricing. Low pricing and suddenly I've got a 7% commission there I've got to pay now, I think it was a 2% with Basil at that time I can't recall the detail, but it was a 2% commission level with Basil Hersov. He used to be the 125 representative with British Aerospace pre the apartheid regime.

L JONSON: Mm-hmm.

A MCDONALD: Richard Charter, through his offices I think, good offices with Mike Turner, because Richard Charter and Mike Turner were, at one stage, very close. And I say at one stage very close, I think that Mike always liked to think whoever is his managing director, he had closer relationships than everyone else but I think I won Richard over to my side in the end in terms of who was closest. I think he was closest to me that Mike in the end but was very close to Mike. Long before I met Richard he was close to Mike. He won the 125 project. Basil took them to court in England, I believe, I believe he took, so I'm telling you what I believe, I believe that George Carmen represented him. I believe that he was going to expose British Aerospace's trading practices in the court so they did an out-of-court settlement so that every 125 that was sold down in South Africa even by Richard Charter, Basil Hersov benefited, and I believe that any other commercial,

any other British Aerospace trading in South Africa he was to be incorporated in the incentive arrangements. Any benefits that came out he was to be incorporated, Basil Hersov.

G MURPHY: What BAE working practices was he going to expose? Do you know?

A MCDONALD: I believe that the fact that, you know, that BAE would incentivise deals to happen, I believe it was, that's what he threatened to do, I believe. I believe -

L JONSON: Sorry, sorry to sound pedantic -

A MCDONALD: Yeah.

L JONSON: - but when you say incentivise, could you just spell it out in plain English?

A MCDONALD: Well, why I'm, why I'm reticent not to do so is because I was not familiar with what Basil Hersov was doing or how he was trading aircraft -

L JONSON: Sure.

A MCDONALD: - or what he was doing. So, for example, but let me give you an example of what I think was the practices that - if, for example, a chief engineer was critical to the decision of a corporate customer buying a 125, if arrangements had to be put in place for that chief engineer to receive an extra mural benefit outside of his normal salary -

G MURPHY: Right.

A MCDONALD: - without the knowledge of his company, I believe that BAE would approve that sort of transaction and that Basil would declare it as

an expense and would win the business, get his commission and paid his expenses and British Aerospace would accept them as legitimate expenses.

- G MURPHY: Who would be approving that within BAE, do you know?
- A MCDONALD: No. There would be a sort of committee. I can tell you from the point I got involved with who was on the committee. But that committee was always in place.
- G MURPHY: Was that the -
- A MCDONALD: That was the -
- G MURPHY: That was the referrals committee.
- A MCDONALD: The referrals committee.
- G MURPHY: We will move on to that.
- A MCDONALD: The referrals committee was always in place at British Aerospace, to my knowledge -
- G MURPHY: Okay.
- A MCDONALD: - and that would always be dealt with at referrals committee. What I can tell you is who chaired the referrals committee from the time that I - we, as managing directors, used to attend but were not full members.
- G MURPHY: Can we, we'll come on to that and we want to, we'll look at your involvement in that as well.
- L JONSON: Yeah, we have -
- G MURPHY: Back to the, the -
- L JONSON: So, passive.
- G MURPHY: The passive.
- A MCDONALD: So Basil Hersov, and Basil did nothing, nothing. Wasn't, he wasn't any influence whatsoever.

Nothing.

G MURPHY: Right.

A MCDONALD: Nothing.

G MURPHY: Never arranged any meetings for you to attend?

A MCDONALD: Nothing.

G MURPHY: He never -

A MCDONALD: Nothing, nothing.

G MURPHY: Nothing at all.

A MCDONALD: Passive as you, you know. Except always demanding his annual agreement was signed.

G MURPHY: Right.

A MCDONALD: Right.

G MURPHY: Okay.

A MCDONALD: Passive. I mean, to my, a waste of space as far as I was concerned.

L JONSON: Okay.

A MCDONALD: Now did I get on, Basil liked me, we got on well.

G MURPHY: Yeah.

A MCDONALD: But, you know, you see, so -

G MURPHY: Yeah.

A MCDONALD: - so Basil Hersov, nothing. Who else? Then there was Nabil Hadjezi.

L JONSON: Zomita.

A MCDONALD: Don't, never knew them as that. I think that, Nabil Hadjezi. Nabil Hadjezi, now the guy you refer to, he's referred to in the Lichenstein papers as Clark. Is it Clark?

L JONSON: David Clark.

A MCDONALD: I think it's David Clark. That's his representative. I've met him once after I

left British Aerospace -

L JONSON: Right.

A MCDONALD: - but never, was never involved with this man.

G MURPHY: James Clark?

A MCDONALD: Not, no, no -

L JONSON: No, that's, no, that's, that's -

G MURPHY: No.

L JONSON: We have a number of Clarks, it's a common name.

A MCDONALD: Yeah. But in the Lichtenstein court papers -

L JONSON: Yeah. It'll be, it'll be David Clark.

G MURPHY: Yeah.

A MCDONALD: He, he is the one that I believe is, he's based in, he's resident in Switzerland.

L JONSON: Yes, it's David Clark.

A MCDONALD: Right. He's resident in Switzerland.

G MURPHY: Sorry.

A MCDONALD: He looks after Nabil's interests and has done for a long time.

L JONSON: Who is Nabil Hadjazi?

A MCDONALD: Right. Well, here we go.

L JONSON: Sorry. I mean, briefly -

A MCDONALD: No, no, no, I thought you would -

L JONSON: We will get to it, it's just -

A MCDONALD: I thought you would have been right on this one. But, anyway. Nabil Hadjezi is, he was a Middle East ambassador at one time, many, many years ago for the United Arab Republics, I believe. I believe.

L JONSON: Right.

A MCDONALD: And he established a great rapport in London with everyone, you know. This is years, this is

years and years ago -

L JONSON: Okay.

A MCDONALD: - right? And Nabil, I believe, was very influential in British Aerospace doing business in Arabia in its early days.

L JONSON: Okay.

A MCDONALD: Way, way, before Alyamamah. Right? I believe he was also instrumental in putting the whole concept of Alyamamah together. He's a delightful person, delightful man. He was introduced by Dick and I was told by Dick that we had to incorporate him into the South African deal because we had failed to meet our obligations to him in the Middle East and had no other vehicle to do so. So, he was to be incorporated into the South Africa deal. Now, here's me trying to get a competitive price going, and I've got another 2% added to the arrangement. And I, I said -

L JONSON: When, when Sir Dick said that the company had failed to meet their obligations and his, can, do you understand what he meant -

A MCDONALD: Yes.

L JONSON: - by that?

A MCDONALD: Yes. What happens, yeah, I understood but, you know, if you said, I only can interrupt what I thought he meant.

L JONSON: Of course, but it's your understanding of it.

A MCDONALD: Right. When Alyamamah won, because of my involvement in Saudi Arabia in the early days, you know, you're sitting in the

sidelines watching the whole thing goes on.

Now, there was a, the Kashoggi-

L JONSON: Yeah.

A MCDONALD: - the Kashoggi, the Kashoggi boys were there and there's three brothers there, the Triad Group -

L JONSON: Mm-hmm.

A MCDONALD: - was their company. So, the Kashoggi boys. There was Prince Turki -

L JONSON: Yeah.

A MCDONALD: - before Prince Sultan, they're all part of the Sudhari seven. So, everyone latterly was trying to get in on, to be part of the arrangements of the - you can imagine in Saudi Arabia, when the first defence deal, and this would be Alec Atkin and Growcock, when that was first deal, Nabil would be involved pre that. He would be involved in the introduction of British Aerospace to United Arab Republics into Saudi Arabia, and Nabil would have an understanding that he would pick up a success fee in accordance with sharia law, he felt he was always entitled to a success fee. As more and more people saw what was going on more and more people wanted to jump the bandwagon and, I believe, Nabil's position was marginalised so that when either on one of the Saudi deals, I never knew which deal it was, but either one of the United Arab Republic deals or on the Saudi deal, because it was a hot programme out there, I believe that his position was marginalised and he was not,

Dick was not able to incorporate, when you make all these arrangements, his fee into the process. And so when the South African campaign came along - and not early on in the process. I mean, from Dick discounting South Africa nobody wanted to know South Africa. Suddenly, when it became real, suddenly you had all these people appearing that I was to take care of in the price and I was told that I was to put Nabil forward as a beneficiary in this project and I did. I did at Dick's instigation.

L JONSON: Did he do anything?

A MCDONALD: Nothing, nothing.

L JONSON: Did he even live in South, did he even live in -

A MCDONALD: No, he never visited. Never visited, never been to South Africa. Well, he may have been to South Africa but I have no knowledge of him visiting South Africa.

L JONSON: Okay.

A MCDONALD: What Dick would say, what Dick would say and what Mike Turner said, these people's influences will come to a head when it really matters, when it really matters.

L JONSON: What did you understand that to mean?

A MCDONALD: Well, I think in the old traditional way that, you know, for example, I watched the Saudi deal and, you know, Mrs Thatcher's intervention at some stage or, going back on Alyamamah one James Craig the Saudi, the British Saudi ambassador who was so close to Prince Sultan, made a special visit to him. So,

it was always seen that there was someone that would intervene and make something positively happen in the key decision-making. But Dick and Mike were out of touch that we were going through a proper defence procurement programme like we were going to go through the Ministry of Defence. To my mind Dick and Mike were out of touch with what was going on in South Africa, didn't take any time to understand and simply imposed these people on me to try and -

L JONSON: Because -

A MCDONALD: - discharge previous obligations.

L JONSON: Yeah, because, I mean, I could understand if it was a, if it was a deal in the Middle East, but I'm just trying to work out how someone like Nabil would be of use when the time was right.

A MCDONALD: He wouldn't be, wouldn't be.

L JONSON: But if he doesn't know -

A MCDONALD: But you see, the deal was, if you look at our deal winning, it was like five or six years between every major deal. So Nabil had probably been waiting for a long time for his, what, he'd probably done something previously -

L JONSON: Right.

A MCDONALD: - and was expecting pay-back and the Middle East people tend to be very patient. I mean, these people are very patient. So, this was Nabil's reward for whatever he'd done previously. And to my mind -

G MURPHY: Sorry.

A MCDONALD: - to my mind no, no - just so you're clear, they always said that they he had key, he had key contacts. Dick always said he's key contacts but it never materialised to my knowledge.

G MURPHY: Right. We're going to have to hold it there. The time by my watch is now two minutes past one, and the time by the counter is showing 45. We'll stop this tape.

(End of Tape 3)

TRANSCRIPT OF INTERVIEW HELD AT TODS MURRAY LLP, SOLICITORS,
EDINBURGH QUAY, 133 FOUNTAINBRIDGE ROAD, EDINBURGH EH3 9AG ON
TUESDAY, 14TH AUGUST 2007.

CASE REFERENCE RLI02

TAPE 4 OF A BATCH OF 14

PERSON BEING INTERVIEWED: MR ALLAN MCDONALD

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MR PETER PATERSON	-	SOLICITOR

B SMITHWHITE: This is the start of tape four of the
Section 2 interview with Mr McDonald. The time
by my watch is 13.56 and we are resuming after a
break for lunch. Please can you confirm,
Mr McDonald, that we have not discussed
any matters relating to this case during the
interval since the end of the previous tape?

A MCDONALD: I can confirm that that is the case.

B SMITHWHITE: Thank you.

G MURPHY: And can you just confirm also that the
same people are present in the room as were
before lunch?

A MCDONALD: Yes, the same body OF peoples continues to be

RLI289

Corrected Transcript

gathered together.

G MURPHY: Thank you. I just want to go back before we move to a different topic. Proactive agents, the terminology you were using and I'm, I'm specifically thinking of Richard Charter, Alec Roberts -

A MCDONALD: Mm-hmm.

G MURPHY: - and, who was the third one?

A MCDONALD: Alan Curtis.

G MURPHY: Thank you, Alan Curtis. They were, they've obviously been performing a role -

A MCDONALD: Yeah.

G MURPHY: - and it strikes me that the role that they were performing may well have involved travelling around, meeting different people.

A MCDONALD: Yeah.

G MURPHY: How were they actually covering their expenses whilst this was, this was all happening?

A MCDONALD: Well, in the case of Alan Curtis he received no funds from us whatsoever. To my knowledge he was self-financing his own activities. In the case of Richard Charter he continually pleaded to British Aerospace that he needed to be funded and you'll see one of the memos that I put forward that we make him Chairman of British Aerospace South Africa and establish a budget for him -

G MURPHY: Mm-hmm.

A MCDONALD: - and his activities. And we did that. So, he was, he was funded for most of his travel and entertainment expenses, you know. He, I mean,

he, he was almost acting like full-time British Aerospace, you know, down there. And, so I saw him as a member of staff effectively -

G MURPHY: Right.

A MCDONALD: - working and that way I could control him a lot better so I was quite comfortable to do that. And the third person was, who -

L JONSON: Alex.

A MCDONALD: Alex. And Alex Roberts, initially Alex wouldn't, first of all, Alex wouldn't even accept any agreement at first. Alex said, let's make sure that we've got something to agree on. So, you'll see in the schedule of agreements we never promoted Alex agreement until very close to the down-select being a real feasibility because up to that point Alex did not want to know about any agreement because he doesn't deal in the imagination, he only deals with reality. Just the type of person he is, you know, let's not talk about something that's not real. But there was always an understanding about what level of commission he would get if we were successful.

G MURPHY: Right.

A MCDONALD: And it was mainly Hawk at first and then when the Gripen, he promoted the Gripen. When I say, when I say at the early days, certainly never in the early days. In the latter days we were asking him to do more and more and I think that Andrew Humphries may have been leading, managing

Alex on a day-to-day basis for me. I can't remember, it was him or Stuart McIntyre, I think it was Andrew Humphries. And I think there may have been discussion of the paid expenses to Alex and I'm sure I would not have said no to that. But I can't, if you said to me am I aware of us paying expenses to Alex, that level of detail I'm not aware of, but I would not have opposed it.

G MURPHY: Yeah.

A MCDONALD: I would not have opposed it. And it would only have been expenses, you know, it would only have been expenses. In the case of Alan Curtis no payments -

G MURPHY: Right.

A MCDONALD: - are made. But having said, so we're clear, he ran the Airborne Initiative, Alan Curtis which was, in Britain, it was like treating young prisoners and it was a programme he did with the government and took it, he did it here in Scotland, did it in parts of England and would take soldiers and put young people in outward bound programmes called Airborne Initiative. And it was very much linked to the parachute regiment which Alan has always been a sponsor of. And they launched an equivalent Airborne Initiative in South Africa and British Aerospace donated £500,000 to that and it was, that was declared. And Joe Modise was there at the time that that was announced.

G MURPHY: Do you know the name of the trust in -

A MCDONALD: It was the Airborne Trust.

G MURPHY: The Airborne Trust.

A MCDONALD: They called it the Airborne Trust.

G MURPHY: Yeah.

A MCDONALD: It was the Airborne Initiative here and -

G MURPHY: Yeah.

A MCDONALD: - they adopted the same philosophy in South Africa. And I think Richard Charter was on the board to make sure that it was legitimately spent. It was not targeted at young men there, it was targeted at soldiers that came out that had no place to go from, you know, from - when the, what was one of Joe Modise's issues was they created the, they merged the two defence forces but there was a number of spill-overs. The people who could only have been, who'd only been rebels or soldiers -

G MURPHY: Yeah.

A MCDONALD: - and had nothing to do. And we saw that as a good corporate citizen initiative. Perhaps I should say just, at this stage, I think this is a good stage to say something that I was talking to Peter about but I feel that, at the time of the South African campaign there was a clash of cultures taking place within British Aerospace. Previously British Aerospace, when it was dealing particularly in Africa and Asia, would influence the decision-making process by engaging high-level consultants who would be given a fee to engineer a yes vote in favour of

British Aerospace. Now, that fee could be used to, you know, to positively influence, if necessary, government ministers.

L JONSON: When you say positively influence what do you mean?

A MCDONALD: Make sure that the minister voted positively and, ultimately, could become a beneficiary. I mean, if you see that I'm talking about a culture -

L JONSON: Sure.

G MURPHY: Yeah.

A MCDONALD: - that I understood to be in place -

L JONSON: I understand.

A MCDONALD: - at the time that I came along. And so, when I was given Bredenkamp and, for example to use, and Basil Hersov the kind of philosophy, the old philosophy was, you know, promoted to some extent by Mike Turner and Dick, well, these are, you know, if you need this help, these are the guys whose going to do this. I came in with a completely different approach, a new modern country, let's do it proper, let's be confident in our own products, and let's go through the democratic processes. So there was a clash of - and all you had was all these guys wanting to be part of the action who, who were never introduced until it became a reality. This is the thing I always get, they never appeared until, you know, Bredenkamp wasn't one of the first people I was introduced to when I was made in charge of this whole region. He

only became a feature when suddenly the South African campaign started taking legs, if you follow me. When suddenly -

G MURPHY: Yeah.

A MCDONALD: - maybe the Hawk and maybe even Gripen. Same with Basil Hersov. I mean, they only started to make their appearance to me when suddenly the campaign started taking on some, some legs. And I think there was always the view, there was always the view within Aerospace that even though, and I was naïve in my approach and there would become a time in the project where their influence would be necessary. And so, and that was always said to me.

G MURPHY: Mm-hmm.

A MCDONALD: You don't understand. You don't understand how difficult it'll be to cross the final hurdle. You don't understand these things.

L JONSON: Who would say this?

A MCDONALD: This would be Mike Turner. Mike Turner would be adamant that I needed to keep these people on side all the time because - because I was continually saying why do I need them?

L JONSON: Mm-hmm.

G MURPHY: Mm-hmm.

A MCDONALD: I mean, at one stage after a year I challenged the need for Bredenkamp and his team, after a year.

L JONSON: Mm-hmm.

A MCDONALD: And Bredenkamp was almost threatening when I - so they said, well you must keep them. So I

said, fine, I'll keep him but I'm going to halve his fee. Well, Bredenkamp was almost threatening to me.

L JONSON: Did you, can you, you've used Bredenkamp himself. Did you speak to him?

A MCDONALD: Oh, yes. I mean, I, and him, and him and Jules Pelissier, yes.

L JONSON: Right.

A MCDONALD: In the, the place near his own offices, I go to his offices and see him, yeah.

G MURPHY: So you'd see Bredenkamp?

A MCDONALD: Bredenkamp.

G MURPHY: Yeah.

A MCDONALD: I'd see Bredenkamp in the UK and I'd see Jules Pelissier in South, or Jules would come and see me in South Africa.

G MURPHY: Yeah.

A MCDONALD: I mean, they seem to know every time I was, I mean their intelligence was good because they seemed to know every time I was in South Africa.

G MURPHY: You, you said it was Bredenkamp, the term you used was Bredenkamp and his team. Was that the way you saw it, Bredenkamp and his team?

A MCDONALD: Very much so. Because Bredenkamp philosophised about Africa. But it was always Trevor or Jules that was down there in Africa, you know -

G MURPHY: Yeah.

A MCDONALD: - in South Africa.

L JONSON: You say Pelissier and Wilmans were in South Africa?

A MCDONALD: Yeah.

L JONSON: How would you, I mean, we are going to come on and deal with this -

A MCDONALD: Yeah, yeah.

L JONSON: - in due course but while we're on it, who did you consider within that team to be the head, if you see what I mean.

A MCDONALD: Oh, Jules.

L JONSON: Jules?

A MCDONALD: Yes.

L JONSON: ` Sorry, I mean, the head of, when I say within the team I mean -

A MCDONALD: Well, who was the boss?

L JONSON: The boss?

A MCDONALD: Bredenkamp was, I mean, when you're in, when, they were always silent within his presence. Bredenkamp dominates a room.

L JONSON: Did you consider the, well, perhaps we'll come on to this -

G MURPHY: Yeah.

A MCDONALD: Yeah.

G MURPHY: Okay.

L JONSON: - when we deal with it, with this case.

A MCDONALD: What I was trying to say, there's a clash of philosophies at the time.

G MURPHY: Mm-hmm.

A MCDONALD: I wanted to bring a sophisticated approach to marketing to make the business winning, and was prepared to go about it in sophisticated sort of ways like good corporate citizenship, well positioned British Aerospace, trying to lift the perspective. British Aerospace was not

well regarded. It was seen, because we continued to sell 125s even during the apartheid period to companies, we were seen as a company that continue to support the apartheid regime. So, we were not, and that's why the suspicion about Richard Charter, if you follow me. So, there was, while I was trying to change our horizons, linking it to good, to the British government who's been very supportive of South Africa and the president coming over the London and all that occasion, we helped in any way we could. So, here was me and I was, because I was new to military was seen as naïve. We're going to need these people, we're going to need. Nabil will make his contribution at the appropriate time Dick would say to me.

L JONSON: And -

G MURPHY: And they were reasoning because that's the way it's always been done before?

A MCDONALD: Because that's what's necessary.

G MURPHY: That's what's necessary.

A MCDONALD: That's what's necessary. And I couldn't see it. Not in South Africa. Not in South Africa. If you'd said to me, and I'll be very honest, if I was going in to United Arab Emirates some day and Nabil was, I could see Nabil would have the contacts there to get a positive result, you know.

G MURPHY: Mm-hmm.

A MCDONALD: Because there it's down to one or two individuals but this was a, this was a

cabinet process. This was a sub-cabinet process, a cabinet process and approval by government process, and then approval by parliament. So, I couldn't see how these guys were going to influence anybody unless the arguments were so strong from a technical point of view that you could win it professionally. So, I'm just saying to you so that you don't say, I'm not trying to avoid your questions, I just feel that I was coming in at a stage where I was trying to change the culture and Dick and Mike wanted to put some provision in place just in case I was wrong.

G MURPHY: Mm-hmm.

A MCDONALD: Just in case I was wrong. They didn't challenge me much of what, they never came, they didn't want to come down. They'd left it all to me. I mean, they left all -

G MURPHY: Yeah.

A MCDONALD: - the campaign running to me.

G MURPHY: Were you ever concerned that the two regimes, your new fresh bold approach to the way things had been done in the past were ever running in tandem?

A MCDONALD: Well, I think the plan was that they were to run in tandem. I think the insistence from top management, from Dick and Mike that until my approach was proven they were not prepared to take the risk of losing business by not having the other part of the regime around.

G MURPHY: Right.

A MCDONALD: But, but let me be clear. As I became more confident in my approach, I became more critical of even engaging these people.

G MURPHY: Yeah.

A MCDONALD: And was not, not a friend of them. Not a friend, by being critical, by criticising their levels of fees that they were being paid, you know. I mean, they were trying all the time to please me. Jules, that's why I, Jules was trying all the time to please me. Like, for example, he would tell me who visited Chippy Shaik. He would know the whole of Chippy Shaik's diary for a week. But I already knew that.

G MURPHY: Yeah.

A MCDONALD: So, he would share this with me, a demonstration of how close he was getting into the system. And it was just, it was just a - we were in, we were in the, you see, we were in the establishment. Stuart McIntyre, Niall Irving, Richard Charter, Fana because he would tell us who had visited the minister. The minister himself would tell us who visited. We were in the system. We were in taking them out, we were running golf competitions for the air force, different stuff participating, and hearing who was visiting who, you know. We'd our own network going on, what was going on down there and Stewart was, and we had, we had about six or seven people, Andy Humphries, a

whole bunch of people engaging in the process. And, you know, I'd tell him, always be alert, who was coming into the office as you left. Look at the diary, talk to the secretary, find out who was going on. Our boys were wonderful but finding out, you know -

L JONSON: That's the team of BAE people.

A MCDONALD: The BAE people would, for example, take, Stewart McIntyre always took perfume to Joe Modise's secretary. Every time he came in, a wee dot of perfume. He says he was given it in the British Airways. He was handed it. He says, I can't use this perfume, would you like it dear? And she would hand it on, and he says, has the minister got a busy day? And she says, oh, yes, he's got people from DASA coming in. I mean, Stewart is a charmer. I mean he just was so... And he'd come out and he'd write a full report. How Stewart got his information he was in there just doing it.

G MURPHY: Yeah.

A MCDONALD: But, you know -

G MURPHY: Can I just be clear on one thing here? I asked the question about whether you were of the view that the two regimes might have been running in tandem. Were you ever of the view that when you arrived in South Africa -

A MCDONALD: Yeah.

G MURPHY: - and you looked at what was going on there that the old regime of, maybe, crossing palms with a bit of silver here and there was in operation?

A MCDONALD: No, it was inactive.

G MURPHY: It was inactive?

A MCDONALD: Inactive.

G MURPHY: Not the time you arrived?

A MCDONALD: Nothing was going on.

L JONSON: How can -

G MURPHY: How can you -

L JONSON: Sorry.

G MURPHY: How can you be so sure?

A MCDONALD: Well, first of all because, first of all Bredenkamp and Jules were nowhere to be seen in South Africa.

L JONSON: At that point?

A MCDONALD: At that point. Not on horizons anywhere to be seen. And Robbie was working for me and I knew who, and he was going up to Zimbabwe to see these guys and always wanted to meet these guys. And I said, I don't want to meet guys from Zimbabwe. What are they going to do down here? Oh, they've got connections down here. And Robbie was, I mean, Robbie, I mean, I got rid of Robbie because Robbie was just ineffective. I mean, Robbie was dealing with air force, air force matters. He didn't know the minister, he didn't know Ronnie Castles, he didn't know anybody at the ARMSCOR. Robbie Roberts knew nobody at the element of where decisions would have to be made. But he may have been taken, I don't know what his arrangements were under Jerry, he may have been taken, I'm sure he was given allowances to entertain people, look after

people. I'm sure he was. But he was entertaining, whoever he was doing it, he was doing it to the wrong people, you know, taking them out for -

L JONSON: Sounds like a low level too lower level.

A MCDONALD: Well, he felt that the air force, you know, nobody will, he kept saying to me, but nobody will buy anything unless the air force agree. Yeah, but nobody, the air force won't buy it unless they have a budget to buy something, Robbie. You know, you've got to get the budget established first, and then you can start to lobby the air force. So, you know, keep them on side. But he was so, he was - you see, imagine what happens. He did the Zimbabwe deal, so let's think about what happened in Zimbabwe. Now, the Chief of Air force is a cousin of the president and Bredenkamp and Jules Pelissier made sure that the president was on side and Robbie was part of that regime. Decision made.

G MURPHY: Yeah.

A MCDONALD: Hawk bought, you know.

G MURPHY: Yeah.

L JONSON: Do you know a lot about the Zimbabwe -

A MCDONALD: No, nothing, nothing. I just came in and know the history, you know that, I mean, you know - I can't make allegations.

L JONSON: No, no.

A MCDONALD: As an Aerospace man I understood the culture was as simple as that. Enlisting, you see. And Mike Turner was so dismissive of a, at

that time, of a sophisticated approach. Mike Turner was a nuts and bolts guy. Let's get it done, let's influence the right people and do the deal. You know, that was Mike. And, you know, he was, he had, he had, even in commercial aircraft he had, you know, he had no time for, and still does to my mind, no time for the sophistication. No time for the sophistication. It's just, let's get on with it. As I say, let's get on with it, you know. Rather than sometimes you go to the politics of sophistication.

So, he and I - but I was patient and working on getting him to understand. I think he respected me a lot. And, you know, I think he respected me a lot, but he saw me very much as a Charles Masefield man. And I was. Not in the terms of physically support but in terms of the professional approach to doing business.

G MURPHY: How can you be sure that people like Richard Charter hadn't been paying money prior to your arrival?

A MCDONALD: Well, first, well, let me tell you. First of all he had no, there was, any budget, any budget, when I took over any budget that was spent in any country was under my control from the moment I took over. And I asked for a review of anything and Richard wasn't, all he was getting was commission from 125 was the only thing. So, he was self-financing everything from day one and he, all, the

first day I ever met him, all he did was moan about that. That he was doing all this for military aircraft and this was all -

G MURPHY: Yeah.

A MCDONALD: - part, him self-financing. So, if there was stuff going on Richard was self-financing it.

G MURPHY: Yeah.

L JONSON: So, that's it, you can't be sure, can you be sure that -

A MCDONALD: No, no, I can't, I would tell you knowing, it would not surprise me but I've got no evidence -

L JONSON: No, no that's fine.

A MCDONALD: - nor do I think, but knowing Richard Charter as I did, he was a pretty strategic thinker and he would have a lot, he, if he truly believed which I think he did, that Hawk was doable down there, he would have had, he would have had a bries, barbecues at his house and all sorts of stuff with key people -

G MURPHY: Mm-hmm.

A MCDONALD: - and would, you know, arrange through his company if they were travelling anywhere, facilitate easy travel and stuff like that. If you ask me did I think he was actually making payments to anyone, not Richard. Not Richard. Because he's too miserable.

L JONSON: What about - no, I can understand that. Obviously he complained about money, but do you think it was possible that he might have agreed, entered into agreements with people that, you know, if the time comes and your support is

needed for the Hawk, you know, you'll be rewarded?

A MCDONALD: Richard would have promised anything to win the business, but if he did say that he did it without my authority and blessing.

L JONSON: Certainly your authority, but could, did he have contact, before you arrived who -

A MCDONALD: No, he was a maverick in that respect. He was a maverick. He would, Richard was always a maverick in a project, was always. I mean, highly intellectualised individual but a horse-trader. You know, he could understand intellectual process we were going through and the sophisticated but was a horse-trader at -

L JONSON: But somebody must have originally been responsible for appointing him and recognised his value.

A MCDONALD: Well, Mike Turner, I believe, or Jerry Wooding appointed him to represent us in the corporate jet business. You know, that would have been approved way back. I don't know who made that decision.

L JONSON: Right.

A MCDONALD: But he was getting fairly large commissions. Let's say a corporate jet would sell for \$7-\$8 million, he would get half a million dollars commission. But if he sold four or five a year, you know, it was two and a half million dollars. So, he was getting hefty commissions from his corporate sales of 125.

G MURPHY: Mm-hmm.

A MCDONALD: Osprey Aviation was a very successful business. I mean, Richard was, Richard was a fairly wealthy, I mean, Richard's house was in Sandton.

L JONSON: Sandton.

A MCDONALD: Beautiful, beautiful house. Richard was, I mean, a wonderful farm. For all I knew when I first went down, Richard was a very wealthy South-African before, you know, before, you know, without British Aerospace. So, there'd be no need - so, I'm sure he would say all sorts of things to all sorts of people. But he did say a lot of that stuff earlier on which I said, we'll not be party towards it, you can't say these things, we're not going to do it this way. It took me about a year, 18 months to get him lined up properly. He would [inaudible] and I would just say no, we're not going to do this.

G MURPHY: What sort of things would he say?

A MCDONALD: Like, for example, the Chief of Air Force when he retires, let's set up a retirement fund for the Chief of Air Force. Won't get a penny until after the decision is made. I said, we're not doing anything for the Chief of Air Force. You know, we're not, we're not going about the campaign that way. So, this was all -

G MURPHY: What did he say when you said that to him?

A MCDONALD: Well, that's what you did in other countries, you know. I said, well, we're not doing it in this country. This is a

more sophisticated approach we're taking. So, I'm just saying, I came in a time of a culture which I didn't - in fairness to him he came on mind strongly. He became a great advocate.

G MURPHY:

Mm-hmm.

A MCDONALD:

He became a - when he saw us get the down-select on the Hawk and the Gripen, or even Gripen was considered, and the way we went about that. I mean, he was massively influenced by Sir Patrick. When Sir Patrick came down he took Richard under his wing and he just loved being in Sir Patrick's company. Sir Patrick is a very sophisticated man and he saw, by professional approach, how to win air force over. Not by promising pensions and that, just by talking about air force to air force manner.

L JONSON:

So, was the Hawk, or this deal, the first military deal that Charter did?

A MCDONALD:

Oh, yes.

L JONSON:

Was it after anything for BAE?

A MCDONALD:

Oh, yes.

L JONSON:

Right.

A MCDONALD:

Oh, he was just commercial. He was just sell aeroplane, you know, corporate jets. And he dismantled, he didn't want to know the jet stream but once the jet stream was established and was operating in country, the, Robert, Foster, Barry Webb and somebody Foster, they were the two joint managing directors of Airlink who we did the deal with, Richard went in and bought half a stake in that company. So,

he got involved in regional aircraft and then he got involved with South African Airways and was trying to manoeuvre his way, when I left, in to being one of the agents for the Airbus deal because he didn't represent Airbus and he saw through South African Airlink and all the amalgamation of the airlines, he saw a way of being a beneficiary in whatever Airbus deal would emerge.

L JONSON: Right.

A MCDONALD: So he was, he saw himself as a continuing - I mean, he was a, he was a, as I say, a horse-trader, a very sophisticated horse-trader. But, I mean, I would say honestly, from, and maybe naively so, but when I entered the affray in 1994 there was no money being spent in winning business in South Africa other than the engagement of Robbie Roberts and paying his expenses.

L JONSON: Yeah.

A MCDONALD: That's all. Winning military business.

G MURPHY: When you say money, you mean money coming from BAE?

A MCDONALD: No budget.

G MURPHY: There was no budget for it.

A MCDONALD: No money from British Aerospace. No budget for it -

G MURPHY: Okay.

A MCDONALD: - other than Robbie's salary. And he had quite a big entertainment budget -

G MURPHY: Yeah.

A MCDONALD: - because he used to golf with everybody, you know.

G MURPHY: Yeah.

A MCDONALD: And drink with everybody.

G MURPHY: So, you're looking at it from a budget point of view. There was no special budget from which -

A MCDONALD: No. And one of my early memos you will see me trying to establish a budget for our activities in South Africa.

G MURPHY: Yeah.

A MCDONALD: And you'll see one of my early investments was taking - because I had, when I was making the step over from jet stream aircraft to military I was in charge of both regimes, and I used our jet stream budget to support one of the initiatives we used. It comes out in the detail, I saw it in your memo, 20,000, I think it was pounds, we used.

G MURPHY: Okay.

A MCDONALD: It should have been against the military budget but we used and it was easy for me to prove it. And it was a legitimate expenditure anyway which I'll go into.

G MURPHY: Go back to the expenses that I, that I spoke about earlier -

A MCDONALD: Yeah.

G MURPHY: - and you said that Richard was, was receiving some on-going expense payments.

A MCDONALD: Yeah, yeah.

G MURPHY: How was that audited, or how was that recorded?

Was that -

- A MCDONALD: Well, Neils Peterson who was the, he's had a different role since, but at that time he was the financial controller of the marketing organisation, IMSO. Neils Peterson -
- G MURPHY: Yeah.
- A MCDONALD: That must be a name you've -
- G MURPHY: Yes.
- A MCDONALD: - covered. He's still involved and still there. He's a financial, I think he's either a chartered accountant or a cost and management accountant. He's an accountant by training, and in those days he was simply the accountant. He arranged for Richard to get a budget and Richard would invoice, Osprey would invoice, Osprey would invoice and the budget would be paid.
- G MURPHY: Right, great.
- A MCDONALD: It's, we're terribly organised. I mean -
- G MURPHY: Okay.
- A MCDONALD: - if you said to me, if you said to me, can I, can I demonstrate that, no, no, I just know that that's how the system would operate.
- G MURPHY: Okay, fine.
- A MCDONALD: So, I believe, that Osprey would invoice and it was agreed. Because they wouldn't pay against, they wouldn't pay any other way.
- G MURPHY: No. Okay.
- A MCDONALD: They wouldn't pay any other way.
- G MURPHY: Moving on from the expenses then, let's look at the sort of work that these three people were

doing, the pro-active agents.

A MCDONALD:

Yeah, yeah.

G MURPHY:

How was that recorded? How was, if we ever wanted, or anybody ever wanted to go back and say, well, let's have a look and see what Alec Roberts did? We've heard -

L JONSON:

I.e. to justify a fee later on, you know, as to how much they should be paid.

A MCDONALD:

Just, well, for example, well, let's deal, let's deal with them one at a time. Like, Richard, Richard Charter - who do you want to deal with first?

L JONSON:

Can we go with Curtis first because I think we dealt with- I think its probably easier?

G MURPHY:

Okay, yeah.

A MCDONALD:

Well, Curtis, Curtis was every time, he was regularly down in South Africa. You see, British Aerospace, well these agents don't look for a time-sheet to be filled in. We would give them specific objectives. I, well, I would, not my predecessors, but I would then give them specific objectives of messages I want subtly imbedded in the minister's head, for example.

L JONSON:

Would that be documented?

A MCDONALD:

No.

L JONSON:

Right, okay.

A MCDONALD:

No. It would be in my, well, if it's at Farnborough, I mean, my bullet points, it might be in the master plan documents but, you know, I couldn't tell you where they had to be, you know.

L JONSON: If we were to ask for them what would they, what would they come under? I mean, how would you describe the documents that you had?

A MCDONALD: Well, it was just like my working papers. It was just like, you know, my computer working papers and I would generate bullet points. I would look at, I would look at the summary of, if you go - see, I used to do a marketing report that we'd submit to IMSO every month. Very detailed, I mean, I'm famous for my reports, so, IMSO would have detailed marketing reports. That's a good point to -

G MURPHY: Okay.

A MCDONALD: I used to write my report, here's a good thing, I used to write my report. Every managing director had a responsibility as part of the corporate management of British Aerospace to write a monthly report and submit it, and it was all incorporated into an IMSO report which would go to the board of the company. So, I would do my element, and I was always famous for the quality of my reports. Because I used to use my reports to do two things, one to relate where we were, and one to give clear directions to where we were going. And I would take that report, I would use it as my running diary if you like so that when it came time to update I was always, it was an automatic update because I ready, and I would pull out of it three or four bullets, things

that I would then say to Alan Curtis, these are things I want you to do.

G MURPHY: Oh, right. So, you would record what you'd ask Alan Curtis to do?

A MCDONALD: No, no, no. I would pull it from the report, you know, and maybe either write it down on a piece of paper like this, you know, this is the way I could operate like, you know. Write down and, you know, either give him a bullet or he would write it down and then I would tear the bullets up. But in terms of if you wanted to say, let's have a kind of running progress report of what was happening month on month on month, that would be a good report to get to. Whether, whether any other computer files have been held, I don't have any. I mean, when I left British Aerospace I had to hand over everything that was confidential to the company so I left all my files, all my files there.

G MURPHY: Why is it, just as a matter of interest, why is it that if you had that conversation and the bullets would he give to Alan and it would on the piece of paper, why is it that you would tear it up? What would be the thoughts behind that?

A MCDONALD: I just, well, because it was only, it was, because my way of operating, and even today, it's like an aid memoir to me, once it's done I just get rid of it. You know, I've done what I've said I'm going to do. It's like, I had a

cousin who used to tie knots in his handkerchief until he pulled it out one day and there was four knots in his handkerchief and he couldn't tell you what they were all for. So, I had to adopt that practice. I just put - like this morning, I had three things I've got to do today so I've made a note of things I've got to do today and at the end of the day if I haven't done them I'll make sure I'll do them tomorrow, or I'll tear it up. It's just the way I operate.

G MURPHY: Yeah.

A MCDONALD: It's, it's like, if I was going to ask you, if I was having a conversation and was going to ask you to do something I would, once I'd asked you, I would then tear it up. I would because I, I used to say to people, don't ever have me chasing you to do something I've asked you to do otherwise we're not going to have a relationship. So, I never had to, the people that I engaged I didn't have to chase up. They all knew how I operated. It was my style of, if I, if you don't want to do it tell me you don't want to do it and if you say you're going to do it, do it when I ask.

G MURPHY: So, I mean, that's Alan Curtis.

A MCDONALD: Yeah.

G MURPHY: Were, if the other people, Charter and -

L JONSON: Roberts.

G MURPHY: - Roberts, if they had done something and you needed to report that up to give some indication

as to what these people are actually physically doing -

A MCDONALD: In the case of Richard Charter we had regular management meetings, weekly management meetings in South Africa where we reviewed the campaign and we had DESO reports, we'd have internal reports. Stewart McIntyre used to keep all the minutes of that. Stewart McIntyre. So, he would have kept all the minutes and Richard would be asked to do this, this and this. Niall, talk to the air force, who have you talked to? ARMSCOR, who's made this approach, who's had that approach.

G MURPHY: Right.

A MCDONALD: This would all be agreed in the management reports at a detailed management level, right?

G MURPHY: Yeah.

A MCDONALD: So, let me, so remember, I was treating Richard Charter as an employee -

G MURPHY: Yes.

A MCDONALD: - so I was making demands of him that like I made of Niall Irving -

G MURPHY: Yes.

A MCDONALD: - and Stewart McIntyre. The best guy to ask if you want to understand how they operated in terms of the execution was Stewart because he kept the master plan.

G MURPHY: Yeah.

L JONSON: Right.

G MURPHY: See, I'd like to see some sort of documentation,

if it exists, that would, that would start to set out exactly who was doing what. We haven't seen any yet.

A MCDONALD: Well, I don't know of where it is because when I left British Aerospace, you know -

G MURPHY: Yeah. But it did exist?

A MCDONALD: Yes. We had, we had, you know, a mapping process.

G MURPHY: Yes.

A MCDONALD: We had a detailed mapping process for targeting various ministers. Like, for instance, when we met the, when we knew that someone was meeting the Finance Minister, we would prepare a bullet form and give it to the DESO boys so they would have a record of it as well to hand over and they would then summarise our points and put it into a briefing paper for the ministers. I often saw minister's briefing papers that were the generation of our original ideas that we'd fed into DESO which was, if you're talking about paper transfers, it was all happening.

G MURPHY: Yeah.

A MCDONALD: That was all going on. So, in terms of Richard Charter he was given direction of what to do. Say like, for instance, if I, say like today, if we were sitting today and as I would come to the end of the meeting, I would turn and say to yourself, right, let's just re-cap who's going to do what today. Who's going to take it forward and you would, everyone then scribbled down what their actions were, right?

L JONSON: Mm-hmm.

A MCDONALD: Now, I never asked the secretary to take a minute, I asked the secretary to take a note of agreed actions. So, we used to summarise agreed actions and then people would go away and execute their actions.

G MURPHY: Yeah.

A MCDONALD: And I think what I was famous for was getting things done. Not about writing minutes, not about, you know, minutes, I as about -

G MURPHY: Yeah.

A MCDONALD: - did you do this?

G MURPHY: Yeah.

A MCDONALD: And so we advanced things progressively you see.

L JONSON: So, the execution of those actions -

A MCDONALD: Yeah.

L JONSON: - by the various agents, either Curtis, Charter or Roberts, was that execution documented by them or did they just report back to you orally?

A MCDONALD: No, no, no. Just so we're clear, Charter behaved like a managing director of the business down there reporting into me as chairman of the business down there.

L JONSON: Right.

A MCDONALD: So he formally reported his actions to me, right? Just let's make things clear. So did Niall Irving, Stewart Irving, Andy Humphries, they would all report their actions. Alan Curtis would never consider he had any reporting obligations to me whatsoever.

G MURPHY: Yeah.

A MCDONALD: Nor would Alex Roberts. They would never, under any circumstances, consider themselves people that should report to me. I used to meet with them and we used to discuss where we were and what sort of messages should we try, should we try, and then Alex would say, I'll take care of that for you. I'll do that, I'll speak to the minister. Oh, this is going to take a number of weeks to preposition everybody. This is what he would do. Alan Curtis, I used to say to him key messages to get over to the minutes, one or two key messages like, you know, this GEC business is going to get you into some serious trouble. Or, there was some bad press. Did you see this bad press? The best way to behave to that is, and it was like positive signals, things that he would whisper to the minister. That's what, we used to use him as a, kind of, a way of pushing [inaudible].

In Alex Roberts' case it was more, I'd sit down with a campaign plan, show him what I was doing. He would say, well, I would think you should try this or I think you should try - he was like, if you say to me who was my mentor -

L JONSON: Right.

A MCDONALD: - Alex Roberts was my mentor through this process.

L JONSON: From what you said there it sounds as if he was more of a sounding board than -

A MCDONALD: No, no. He had, no, no. He knew the people in

South Africa better. He knew all the ministers, I didn't. He knew Joe before I knew Joe. He knew Stella. He knew, he knew all the ministers. He'd met them all through his bombardier visit. He had been visiting South Africa, you know, two or three years, I don't know how long before me. He had been in and out of South Africa for a long time. And he also, here's a thing, the Langkawi Conference which is the, the conference that Mahathir runs which Sir Charles now is co-chairman of. This was the, when you bring in all the African and Malaysian states together. It's been running for a number of years. Alex was one of the original founders of that, and he knew all the ministers. He would, he would go as Mahathir's representative, you know. Prime Minister Mahathir and Alex Roberts are exceptionally close. So, he would carry a message from Prime Minister Mahathir to Mandela, or, you know, to any of the ministers in any of the African states.

G MURPHY: Right.

A MCDONALD: He was exceptionally highly trusted by Mahathir.

L JONSON: Okay. So, is it correct to say that in terms of Curtis and of Roberts, there would be no written reports or written evidence of services.

A MCDONALD: No, no, no, yeah. They'd no written instructions, no reporting requirements on their behalf. It never, I don't know any agency that, any of the agents that operated

like that. The only one that would, I mean, Richard Charter loved writing memos. He would write memo after memo, Richard Charter.

L JONSON: Yeah, we've seen a few.

A MCDONALD: Yeah, he would, he, he just loved writing memos. But those guys, no. In terms of, so I'm very clear about this. As we got towards the end of the down-select process I think I was in command of just about the whole process then. I felt I was in command. But when I first started out I can't tell you how raw I was -

G MURPHY: Yeah.

A MCDONALD: - and nobody in Aerospace was helping me in a very sophisticated sort of way. No-one. I felt thrown to the lions. I'd thought I've come down here, taken this job, come up with a good marketing structure and then suddenly I'm into Asia and Africa. And I think it was, well, we'll see if this guy is any good. We'll test him, you know, that. And the guy that took me under his umbrella, under his wing was Alex Roberts for sure. And I'm indebted to him for that because he was exceptionally kind and very patient with me but highly critical of British Aerospace. Highly critical of British Aerospace and its whole approach. And he knew that I could influence Charles probably more than he could although he's very friendly with Sir Charles. He's very friendly with Sir Charles. But Charles and I were very close. I think he, so, I think between

Sir Charles Masefield, myself and Alex Roberts, but in the initial days Alex Roberts first and then Sir Charles and then there'd be me coming in latterly. We, we encouraged him to do the defence review. Alex was the one, if you ask me, that encouraged Joe Modise to go the defence review route.

L JONSON: Mm-hmm.

A MCDONALD: No-one else. Not Sir Charles and certainly not me.

L JONSON: Mm-hmm.

A MCDONALD: And once you were into a defence review then the process was going to start to become legitimate in my opinion.

L JONSON: Yeah. Without written, obviously one of the reasons for written reports would be, really, as an audit trail to be able to justify to the powers that be the level, the appropriate level of remuneration. How, for example, you've, say, take Curtis and Roberts.

A MCDONALD: Yeah.

L JONSON: How could you, were you able to justify then why once should receive a certain amount and one should receive a different percentage? Was it simply based on how you felt, how much you felt they'd contributed to the campaign?

A MCDONALD: Well, first of all, I had a number in my head that I thought we could afford.

L JONSON: Is this a global figure?

A MCDONALD: Yes. No, yes. Against the price of the aircraft, what sort of, and against the margins,

the profitability forecast at British Aerospace, what sort of, what sort of headquarters fee could we afford. They call it headquarters fee -

L JONSON: Right, okay.

A MCDONALD: - I think that's new technology to me but -

L JONSON: Yeah.

A MCDONALD: It was the what sort of extramural fee could we afford that would not come to British Aerospace that we can pass out to help influence to the event? And I was always from a, I was always from a commercial aircraft days, you know, in terms, we didn't really do this sort of business but, you know, but we need to keep the margins as small as possible. So, I came in, my view was if we can try and pitch it at 7.5% we are doing very well, you know, we'll try and keep at that level. But, remember, my first agreement they show me that one guy is getting 7%. That was the first thing that came across me and then you start to realise that, some of the, when I listened to the other managing directors putting their forwards for other countries, 33% return, you know, you know in terms of Brunei 50% return for Royal ordnance. I mean, 50% upwards. So, I'm sitting there, you know, thinking bloody hell, you know. So, maybe military can afford all of this, you know.

It was only when I, it was only - so I'm coming in with this culture that you can add to the price and add on whatever is necessary. At the

same time then I'm arguing for a competitive tendering process which is arguing against the very point of - on the one hand I'm agreeing we should pay these levels of commission because everybody is telling me we should. But it was annually and I realised it was four-five years from a decision so rather than make an issue of it I said, okay, Bredenkamp wants, let's sign 7%. To me my whole approach was, the closer we get to the event the more, and it's, every review time the tougher I'm going to get with these people.

G MURPHY: Mm-hmm.

A MCDONALD: The tougher I'm going to get.

L JONSON: But how did, sorry, how did you justify say, giving, I can't remember the percentages, but, say, Alex Roberts 2% and Alan Curtis 1%?

A MCDONALD: Well, if you imagine, if you imagine when I went into the scene, I'm saying to myself, let's limit the whole thing to 7-7.5%, right? Richard Charter had already his commissions already signed up before I ever arrived.

L JONSON: Is that the overall commission -

A MCDONALD: The overall including -

L JONSON: - including covert?

A MCDONALD: Yes.

L JONSON: Yes.

A MCDONALD: And maybe mistaken, but I think overall he was going to pick up about 4% of the deal, overall.

L JONSON: Right.

A MCDONALD: I'd have to check the detail. Right. I'm

operating if you can, I'm operating in horizon terms of 7 to 10%. I'm trying to keep it within those confines, right? That's my horizon.

G MURPHY: Mm-hmm.

A MCDONALD: Already traded away was Richard's commission, right? Alex was already a representative of British Aerospace in South Africa -

L JONSON: Yes.

A MCDONALD: - in Malaysia. Sorry?

L JONSON: It was four.

A MCDONALD: Four, sorry.

L JONSON: Including Gripen it was four.

A MCDONALD: Yeah. His would, so it would be 4%. But Alex would be - and in those early days Gripen wasn't even in the horizon. I'm just talking about in the early days but I think he still got about four on the Hawk.

L JONSON: It was 2.75 I think to start with but it could be, there may be evidence -

A MCDONALD: Is that covert? I mean, covert and overt comes to three. Covert and overt in '99.

L JONSON: I've looked in '99. There's a lot of reductions until we get -

A MCDONALD: No, no. But I'm talking about he had, in '94 or '95 he would have 4% on Hawk alone. Gripen I don't think was on the horizon. I didn't, I didn't put his agreement in place. That was done -

L JONSON: I think it's because, do you know the name of his early covert vehicle?

A MCDONALD: Yeah, it was, you've got it yourself.

L JONSON: No. Well, we've got Huderfield.

A MCDONALD: No, that's the latest one.

G MURPHY: Primula.

A MCDONALD: Primula.

L JONSON: Yeah, that's Alex Roberts.

A MCDONALD: No, no, Primula is Richard Charter.

L JONSON: Well, he's popped into the, it came in under Alex Roberts.

A MCDONALD: No, no, no. No, Alex Roberts is Arstow and only ever been Arstow. Primula, Primula I tell you is Richard's.

L JONSON: Right.

B SMITHWHITE: Kevan.

L JONSON: Kevan.

A MCDONALD: Kevan was the first one, you're quite right. Kevan was the first one. Well, Primula might have been Alex's first one.

P PATERSON: You're quite right. Sorry, Primula.

A MCDONALD: Primula was Alex's first one.

L JONSON: Yeah.

A MCDONALD: Kevan, sorry, it's Kevan. Now, Kevan had, I don't know, I haven't seen, but Kevan, when I was briefed on this by Hugh Dickinson, and I wouldn't get, I mean this is never done cheap, all this, you see, all of this was never done. Nobody in Aerospace wanted any of this in writing. Dick Evans and Mike Turner would balk at having the sort of conversation we're having. Nobody ever wanted to discuss any of this. Just make it happen.

L JONSON: Didn't want to discuss what, the concept of -
A MCDONALD: The concept. Right, everyone understood that we
needed people to influence, right? So, here's
the man we use but don't tell us the
conversations you're having with him and don't
tell us how much you're paying them.

G MURPHY: Why was that?
A MCDONALD: Because it just, the more, you see, for example,
Neil Learner, is it Neil Learner?

L JONSON: KPMG.
A MCDONALD: Yeah. He audited all this every year all the
payments were made. So, don't tell me that the
auditors didn't know what was going on. He
audited this every year, right? And
Saudi Arabia, the government knew all the
payments because they were party to the process
of how the funds were being played. The
government knew in South Africa, the DESO boys
knew that the Germans were at it. The
intelligence that was fed into us, who was
getting what, what was suggested.

L JONSON: What was the intelligence?
A MCDONALD: They were, the Germans were offering bribes to
various ministers.

L JONSON: Do you know which ministers they were?
A MCDONALD: They would be, they'd be, they'd be, I mean,
Trevor, is it Trevor Emanuel reported them in
parliament -

L JONSON: Yeah.
A MCDONALD: - for trying to offer them bribes.
L JONSON: Right.

A MCDONALD: The Germans. Joe was being lobbied by everyone. Alan Curtis told us Joe was being lobbied by every agency to pay him, to pay him money, you know. Everybody was trying to. So, we, so this was Alan Curtis feeding back to us. And I was saying, you know, this is, for a Minister of Defence to be involved in this, sort of, undue democracy, he's treading on dangerous water. I mean, I got on well with Joe and I used to tell Joe this is not the way you should do these things. You shouldn't do it these ways.

L JONSON: You've obviously got people that you've been, as you say, really forced on you, agents like -

A MCDONALD: Yeah.

L JONSON: - Kayswell being forced on you. Did you have any concerns about what they might be doing with the -

A MCDONALD: Well, if, I told them not to make any approaches to Joe Modise or to Stella. If they did they were off the campaign. They wanted to, I wouldn't let them near them.

L JONSON: You say they wanted to. How, can you give us any more detail on that?

A MCDONALD: Well, they would say, look, we could arrange to, we could arrange for a lunch with Joe or do this, or we could make arrangements with Joe, to see Joe or to do this. I'd say I don't want you going anywhere near Joe. Joe is not your remit, keep back from Joe Modise. I was telling Peter, I mean, they kept saying, Chippy Shaik,

Chippy Shaik. We can get to Chippy Shaik.

L JONSON: Mm-hmm.

A MCDONALD: That's what he used to say to me. I'd say, Chippy Shaik is irrelevant to this process. Chippy Shaik is irrelevant. Everybody else is chasing. The Germans, everybody is chasing Chippy. Chippy Shaik is irrelevant to this process. Because once the air force decide what they want, and once the government has allocated a budget to be able to do it, Chippy Shaik becomes an agent of the process. Like, in terms of the Ministry of Defence in UK or the United States. Once government has decided, you know, we are going to allocate this sum of money to defence procurement, and once there's an evaluation done of that procurement process involving agencies like the air force, right - and I'm talking about, I'm just talking about down-select.

L JONSON: Mm-hmm.

A MCDONALD: I'm not talking about the final contract. You see why, see, there's two things you must realise. I left before the final contracting was done so I don't know what was necessary -

L JONSON: Sure.

A MCDONALD: - what had to be done to get the contract.

G MURPHY: Yeah.

A MCDONALD: And I'll tell you a thing you've got to be aware. Even though we got the down-select, it wasn't just a question of all contracts - you said something very interesting earlier. I

wanted to just tell you something that was very critical to this whole process. You said that all the, the contracts were signed in November. Was it November?

L JONSON: I thought it was December.

G MURPHY: December.

A MCDONALD: December. Well, I think you'll find that the requirement placed on the negotiating committee was that all contracts had to be signed by November.

L JONSON: Right.

A MCDONALD: All contracts. Across the spectrum of defence. And then the next issue was who was going to get approved first? Who was going to be given the monies first? And that's why I need to, they'd be validated, which I think was May before, it was May, about six months later because the big push would then be on with who was going to get, which country was going to get the first go-ahead, because they didn't launch them all at the same time.

L JONSON: Yeah.

A MCDONALD: So it was a question of budget and who was going to get in there first. Now, if you think about the real process of influence. One to make sure that you get the contract at the prices you quoted, and B, having got that decision make sure that we are first to get there because then you can access the down-payment funds.

L JONSON: There's other negotiation, that's what you're saying?

A MCDONALD: Well, I'm just saying that there was major, having got the down-select was one thing, then there was getting the price agreed was another -

L JONSON: Yeah, yeah.

A MCDONALD: - major negotiation. And the final negotiation was, can you pick us first to go with our project because, once it's into the public domain and the public purse has started spending, you can't go back on that contract. But from a time you're seeing the contracts agreed, but expenditure hasn't been allocated there's always a way that a contract can become null and void.

L JONSON: Yeah.

G MURPHY: Sorry, I have to stop you there because the tape is about to finish. The time by my watch is 14.40. The time on the lapsed counter, 45.

(End of Tape 4)

TRANSCRIPT OF INTERVIEW HELD AT TODS MURRAY LLP, SOLICITORS,
EDINBURGH QUAY, 133 FOUNTAINBRIDGE ROAD, EDINBURGH EH3 9AG ON
TUESDAY, 14TH AUGUST 2007.

CASE REFERENCE RLI02

TAPE 5 OF A BATCH OF 14

PERSON BEING INTERVIEWED: MR ALLAN MCDONALD

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MR PETER PATERSON	-	SOLICITOR

B SMITHWHITE: This is the start of tape five of the Section 2
interview with Mr McDonald, the time by my watch
is 14.45. Please can you confirm, Mr McDonald,
that we have not discussed any matters relating
to this case during the interval since the end
of the previous tape?

A MCDONALD: I can agree that we have not discussed any
matters and the whole team is still with us.

B SMITHWHITE: Thank you.

L JONSON: Can I just deal with two other agents..

A MCDONALD: Yes.

L JONSON: And your knowledge of whether or not they were
involved or participated in the South African

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deal. Firstly, a company called Commercial International Corporation...

A MCDONALD: Don't know it at all.

L JONSON: Don't know it?

A MCDONALD: Don't know.

L JONSON: Okay.

A MCDONALD: And I would never know any... I would never know...

L JONSON: The name of the...

A MCDONALD: The name of the company. I would never get exposure to that.

L JONSON: Right. So the name...

P PATERSON: Sorry can I ask... Commercial?

L JONSON: Commercial International Corporation. So if we were to establish the name of the principal behind it, could we come back to you?

A MCDONALD: Yes. I would always know principal, I would... never knew names of companies.

L JONSON: Okay. Well the other one, I don't know the first name, the company name is called Sujinara Limited...

A MCDONALD: Don't know it.

L JONSON: But the identity of the principal I think is somebody called Mr Harding, was there anyone of that name...

A MCDONALD: No one, no one of that name at my time involved in the project.

L JONSON: Right, okay thank you. I don't think I need to ask any more at the moment then.

A MCDONALD: I would only... there was... what happened in the final throes, there you know in terms of the responsibility for agents and their delivery,

what they were going to do came in that final period when I was gone so that's where I can't... so...

L JONSON: Sorry say that again?

A MCDONALD: The real function of agents in terms of when they really become valuable to you is in the final throes of getting the contract signed and getting your allocation of the funds to you. That's when the agents...

L JONSON: Why? What do they do?

A MCDONALD: Well, if for example... if for example a Alan Curtis, still as he did have the ear of Joe Modise, to say to Alan 'It's highly critical that we get priority over the Germans, it's important you get sure that the Minister gives us that priority'. You know so he would just brief the Minister or do whatever he had to get that sort of priority. But it was always said to me that I was naïve and although we go through the down select when it came to the contract signature, we were going to need the power of people like Bredenkamp. This was Turner's argument all along.

L JONSON: When you said 'The power of people like Bredenkamp' what did you understand him... it's your understanding, but what did you understand him to mean that Bredenkamp could do that made him important?

A MCDONALD: Well we talked about this earlier because I don't want to... I don't want to... because it may seem that I am totally naïve which I wasn't

totally naïve so I said the same question 'Well how can Bredenkamp influence matters?' Turner told me when he introduced me to Bredenkamp that once President Mandela's daughter was ill and Bredenkamp used his own private jet to fly her to hospital. Now I don't know whether that is true or not true but it seemed to me that Mike Turner was indicating to me that Bredenkamp had a relationship with President Mandela right?

L JONSON: Right.

A MCDONALD: The only thing I know is, for what it's worth, I don't think that President Mandela had a lot of influence over this defence procurement program. I think it was all Thabo driven. So I don't see the relevance of... you know the more I got into the business, the more cynical I got about... well so what if he flew in his private jet Mandela's daughter, so what you know, but this was... when you are first involved in the campaign, you know when I was first parachuted into this thing and they tell me 'This man flew Mandela's daughter' and I think Mandela... you know everyone thinks 'Who is Mandela, he's the new president, oh well that's bloody impressive, John Bredenkamp must be really in the know', but when I... as I started to go through a sophisticated process, the fact he flew Mandela's daughter had little significance to me.

I got to meet President Mandela four or five times, I didn't have to go through Bredenkamp to meet him you, so and... he knew my name, I was

privileged enough to be in his company, I was in Tony Blair's company twice when we were down in South Africa you know, when he was down there I was there so through the British government's great offices, the British government and the High Commissioner down there was fantastic in opening doors for British aerospace you know and I would represent British aerospace at functions and the president maybe they would be introducing him and they would say 'He's down here advocating to try and win Hawk or Gripen you know and President Mandela hadn't a clue, I mean seriously... I don't mean, sorry... I don't mean 'Hasn't a clue', he wasn't tuned into this, this was not where his focus was but in the early days when I didn't know South Africa and didn't know about what I've shared with you that like let old men have their day in the sun, and it was really been driven by the Thabo regime, I grew to appreciate that through exposure to Alex Roberts and then more exposure to the Ministers and then I watched how Joe was manipulated positively.

I mean for example, I'll give you a good example about what I mean. One of the first things, these people had no cars, no houses; Joe becomes Minister of Defence and is given a house right? And he tells me... he invites me over to his house one afternoon, he's so proud of this new house, he invites me over to this house which is in a white area and it's a beautiful house right?

And this is his first house and his family are there, his two daughters are there, and his wife's there, he invites me over and Paddy Hine was with me, ex-Chief of British Air Force was over there, and then he shares with me 'How do you like my garden?', 'Oh you have a beautiful garden', he says 'Denel, Denel gardeners are looking after my garden'. So as I got to know Fana better I said 'You know the last thing the Minister of Defence should have is Denel looking after his garden for god's sake'. And he says 'Well how is going to get his garden done?' and I said 'Well there's obviously soldiers with no jobs, you've just put half a million towards supporting them, get them to do the bloody garden' I said. I mean it's far more... you shouldn't have the Minister for Defence getting his garden done by one of the main contractors, I said, you could not get away with that in Britain. So next thing I know, the Minister says to me 'We've sorted the gardeners out, thank you'.

It was naivety, it was naivety. And that is what you have got to remember in terms of this was a clash of... this was a new government taking place, they had never governed... you know not just had not been in opposition, not been where you learned the rules of government when you are in opposition, these were people who had been never involved in government at all suddenly governing a country. All sorts of people were

trying to influence them positively and negatively. The boss of Denel thinks he's done great because he had somebody looking after the Ministers garden, when I heard that I was horrified, and it's just a small thing but it was just a way of saying to Joe 'Wrong thing to do Joe' and Joe stopped it.

I mean we were positively influencing Joe Sir Charles towards the end had a big positive influence on Joe Modise about doing things professionally properly, and I think with Alan Curtis, we kept saying the same message to Alan Curtis, the Minister should do things positively and not get himself into any trouble, not get himself into trouble in this whole process and so that's what I was saying when others wanted to maybe reach the old regime, let's go and talk to the Minister and see if we can get the Minister to think more positively you know, we're doing fine, we're doing it through our process. And that was a clash that was going on, what happened in the end I don't know. I don't know what happened in the end, I don't know how much, I was totally out of it and was not... I mean I offered to help and...

L JONSON: Just while you are on that, if we were too... could you give us a steer on who we should go and speak to?

A MCDONALD: Well yes sure. The man who took over my responsibility was Kevin Smith.

L JONSON: Right.

A MCDONALD:

Kevin Smith. Kevin Smith I know reviewed the whole... he used Niall Irving to do a review of all the arrangements and then he himself went in and tried to talk about you know all the arrangements and he would decide ultimately what was paid because he had two major roles. Kevin decided what the price was, and I was always had a pressure point with Kevin, when he and I were told about Primus inter pares, he was boss of military, I was boss of South Africa, and I was unhappy with the prices that military had planned for throwing in at us. It was too high and I asked for a comparison against all the previous contracts. They were loading the South African and I had a problem because of all these other areas. He had a problem with this amount of money that was being added to it, I had a problem with the amount of cost that was coming through and he had a problem with why I was adding to it so already we were at that. So when he became supremo well when he became supremo he could do two things, he could influence the price that military aircraft went in, and he could also take a view as to the agency arrangements. He had the final view, so if what you demonstrate... I had no idea what was finally paid out. I had no idea what was... had no concept... I told you what I knew up to the point I left, but when I saw the papers you presented, he did a good job in getting a lot of them down that's for sure. He did a great job,

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but I had already pre-positioned, I think you'll start to see I had already been tracking people down. But we were still a year or 18 months away from the final decision and it's the last months you squeeze them but what he paid people in the end I don't know, because I was still challenging the, you know, their involvement. I mean I would have today asked 'Why pay Bredenkamp any money?'. I would have asked that question.

L JONSON: Do you know how much he got paid?

A MCDONALD: Only because of what your... only because of the final figure. I don't know the money; I just know the final percentage in the final schedule you have got so I can guess. I mean it's serious money if that's... because I know... so if you asked me 'Did he merit that'? No way. No way, not at all.

L JONSON: I mean he was paid the most out of everybody.

A MCDONALD: Yes, always from day one he was going to get the most and I don't want... I don't want you to think that it was just like money for old rope, as far as they were concerned Jules Pelissier would argue that... see they used to get great pleasure, because he's a great... I don't know, well whether this is a true story or not but just let me share it with you

When Ian Smith was negotiating with Harold Wilson, and they were on this, her majesty's ship, apparently Jules was under Harold Wilson's bunk bed where he was sleeping for about five

days listening to all that was going on because he was intelligence with... you realise he was head of Zimbabwe intelligence, so Jules used to have great pride in telling me what my master plan was. They had people spying, when I would do my master plan he would tell me who I was going to see and what time my meeting was, I said 'Well that's bloody great contribution thanks very much now why don't you go and do something useful for your money'? I was always, and I had this kind of relationship... I liked Jules, I was always... I like Jules Pelissier a lot, I liked him a lot. I think as individuals we had a very blunt exchange but he's a nice man, I found him to be a very nice man and he was amazed at what I was doing down there. I think he was, he was... the old regime watched how it worked and I think he was blown away by what we were doing and he tried to help us and what we were doing he was always trying to help. 'I could influence, I could talk to them... oh by the way the Germans are doing this', and he fed us all sorts of information, what the French were up to, when the Americans were arriving in town, where they were staying, what hotels they were staying in, I mean he felt... if you said to me if you felt what Jules felt... but I wasn't interested in where the Americans were staying or who their team was, I wasn't interested, I wasn't... that was not my focus, but he would tell all this, and he would say to you...

G MURPHY: But that was the extent of what he did was it, Jules?

A MCDONALD: He was always trying to keep up; he was always chasing to keep up. He want... see imagine this from my perspective; they were given, thrown this because of the Zimbabwe relationship, thrown this you know, 7% initially...

L JONSON: You say, sorry you say 'Because of the Zimbabwe relationship'...

A MCDONALD: Hawk, they did the Hawk deal in Zimbabwe.

L JONSON: Yes but what was it, do you know what it was that made Mike Turner think they...

A MCDONALD: Because Mike Turner was head of Defence Marketing at the time they did the Hawk deal and he used Bredenkamp and Jules Pelissier.

L JONSON: But Bredenkamp was presumably remunerated under the Zimbabwe deal?

A MCDONALD: Oh seriously, seriously.

L JONSON: I was just wondering what it was that made Mike Turner say to you, 'We need... we have got to have Bredenkamp on this deal' basically. What was it? Did British Aerospace owe him money?

A MCDONALD: No, no what happened was... we did the... we did the Zimbabwe deal; we did the follow on deal with the Zimbabweans. I mean I just know it from company history right? And it was well understood by those of us in defence we had joined the marketing regime but it was well understood and Jerry Wooding was quite vocal about it, Bredenkamp and Jules Pelissier were the boys that influenced the decision making by

Mugabe and the decision. What did that mean to me? Well it made sure that Mugabe was rewarded financially, if you want me to say what I believed right? And they would be rewarded well financially for getting Mugabe, for taking care of Mugabe, they would be well rewarded. So in those days, if I'm not mistaken, but in those days it wouldn't surprise me, I'm just trying to recollect but I can't recall but if you go back into the records, on the Zimbabwe case I would reckon the commissions were 20 to 30%.

L JONSON: Right.

A MCDONALD: So when I take over and I say 'I'm sorry, this is Mr Bredenkamp and by the way he's already covered for South African Hawk' right? 7% and for any other deal we do there it will be the same level of commission for any other deal that we do down there, that was the message I got, and use them, they would be very influential, and naively thought British Aerospace or Mike Turner would have believed him. Because he was able to get to one president, I think he naively believed he could get to the other president. But the world had changed, the world had changed.

So I think there are many people who benefited from this program without really having done anything or earned it if you know what I mean. I think they came along at a crossroad and just have been the beneficiaries of a very, very successful campaign on the part of British

Aerospace and then hanging onto the coattails of their association in the past is my humble view of what's happened here. You see I don't actually... I don't think... if you said to me 'Am I aware of any government officials receiving money in South Africa?' the answer is no, I am not aware of that. It was never part of the strategy, was never part of my strategy but if you said to me 'But surely you can't have allowed this?'.

I allowed, as you said, the parallel process to continue, but I would only have allowed it to continue for as long as I believed, that they believed this was necessary, but I was getting to the point that I didn't believe it was necessary. I was getting to the point we're going to have to save money to be competitive, I was saying this to Kevin Smith, 'We're going to have to reduce our prices and half of these guys have got to go', and when I briefed Kevin Smith I briefed him on who I believed were the key players in this whole process, I briefed him and I think if you... what surprised me when I looked at it is he didn't touch... hardly touched the people who I told him to leave alone because they had actually contributed to the deal. I told him that Alan Curtis had done a remarkable job in keeping Joe onside and straight.

I told him that we would not have a campaign without Alex Roberts, there would not have been a campaign and Alex would never like anyone else

demanded the agreement up front, he just went on goodwill all the time on goodwill, that this is expanding time, he would brief the... I mean people like Stuart McIntyre and Andy Humphries, as far as they were concerned it was like watching god operate when they saw Alex Roberts. Exposure to Alex Roberts is a great thing in the first place, he's quite an impressive individual and to get exposure to him and talk to the campaign, he was a great mentor to myself, he was a great mentor to those lads, he put a hell of a lot into this campaign with planning the strategy. I showed him more than I ever showed Dick Evans or Mike Turner.

The only other person I ever shared this similar amount of information was with Sir Charles Masefield about our Market Planning process, how we were dealing with the Minister of Trade and Industry, what would be our approach there, what was the economic model for what we were doing. If you go back and check the accounts we employed economists to do some modelling for us to be able to present to the department of Trade and Industry. We helped the Minister of Finance. We introduced Barclays into it... I introduced Barclays who did the gold scheme. That was our... came up with the gold arrangements, not Barclays, that was ours. We came up with the gold arrangements scheme and put the Barclays boys in there to do the scheme so when you start to look across the whole

spectrum of what was going on, we had Sir Patrick working on the Air Force side, I mean we... we were running one hell of a campaign and you say to Stuart McIntyre... I mean he'll show you the mapping process that was going on and there was all these other people trying to tag onto the process because they were given the golden card by the executives of the company who at that stage were still cynical about you know 'Can McDonald do this?'. I mean... I'll tell you if you look at the board... if you... I don't know if you... John Weston and I had a private bet that I wouldn't pull one deal off in South Africa. Something like a £400 or £500 bet that you would not do any deal, I'll give you £500 on Hawk, I'll give you £1,000 on Gripen, he was giving me odds and he's done something on Airbus. They all said I was wasting my time.

G MURPHY: Can I ask a question about Kevin Smith.

A MCDONALD: Yes.

G MURPHY: He was given the role that you were promised?

A MCDONALD: He was given the role that... he took over from Mike Turner. When John Weston was appointed the new Chief Executive, his first appointment was to make Kevin head of the marketing organisation.

G MURPHY: Do you think... this is just something I'd like to seek your view on. Is it possible that BAE did what they did with Kevin, giving him that role, because they didn't want to see your plan through, they weren't sure that you were going

to get the go in your..

A MCDONALD: No, no. He had just finished.. he had just done a total quality management review of the whole company that lasted about three or four years and there was a book produced about how great Dick Evans was, now Kevin ran that whole thing, right across the company. He did a magnificent job right? And Kevin was always seen within the company as the next Chief Executive right?

G MURPHY: Right.

A MCDONALD: And he was just a bit.. when John Weston... I mean so you know the politics, John Weston wasn't the first person to be offered the Chief Executives' position.

L JONSON: Who was?

A MCDONALD: Mike Turner. He turned it down, then John Weston was given the position.

L JONSON: Yes well one of the things I was going to ask because Turner obviously comes back on the scene as CEO quite quickly.

A MCDONALD: Yes Turner never.. Turner and John Weston never had much time for each other right?

L JONSON: Right.

A MCDONALD: Turner is the commercial man; John Weston is the technical man. Highly technical John, you know genius, technical genius, not great interpersonal skills in my opinion, nice man, but not great interpersonal skills, but he was very much involved in the whole Saudi Arabian deal under Dick right? So Saudi Arabia being the key project in the company, and there was

always who was going to succeed Dick. Well I know this for a fact that Mike Turner turned the job down, didn't think he was ready for the job and then he offered it to John Weston.

L JONSON: And how long did Weston have it for?

A MCDONALD: Well he was ousted; he was ousted by Dick... 2 years.

L JONSON: Do you know what the rationale was behind that?

A MCDONALD: Because, yes there was all Ministry of Defence remember we had all these contracts saying the... the... what's these re-fuellers... it's not going on at the moment, all these old...

G MURPHY: The Nimrod?

A MCDONALD: The Nimrod Replacement Program is you know, it's in parliament all the time...

P PATERSON: Oh yes, they are going to develop their own eLAC process.

A MCDONALD: Yes, he was blamed for that disaster, John Weston, and the whole breakdown in the relationship with the Ministry of Defence and it was blamed... I think, I had left British Aerospace and he was ousted and Mike Turner took over. I thought it terrible that Mike Turner turned it down and hung around undermining John Weston at every opportunity so he was effectively reporting to John but you know, so Kevin would have been seen as the next Chief Executive, he was seen as the next Chief Executive and what was missing from his portfolio was the... was the...

L JONSON: Marketing.

A MCDONALD: Marketing and he was a Warton man and John was a Warton man, John Weston, I mean Kevin reported to John so it was natural he'd want his own head... Chief of Marketing in place and John was so removed, he never thought to ask Dick or seek Dick's opinion and he appointed Kevin and then he agreed when I went to see him that I didn't have to report to Kevin and then he had to tell Kevin 'You are in charge of Marketing but you don't have any of Allan McDonald's region' and Kevin said 'This is totally unacceptable, I'm not prepared to put up with this' so that... Kevin and I are friends, so I said 'Kevin, you may become Chief Executive one day but I'm not going to go through a process of coming down here to report to Dick to find I was reporting to Mike Turner to find I'm now reporting to you, and I'm about to pull off some of the biggest business that British Aerospace... I'm not prepared to put up with that, that's just not the way it's going to be and if this is the way British Aerospace is going to go I'm just going to do this deal and get out'.

And I wrote to John Weston in those terms and told him. John Weston came back and said to me 'Withdraw your resignation, don't report to Kevin' but Kevin was very, very unhappy with that process and I told you the story when it came about... when I realised the GEC merger... When Charles told me at dinner that he was offered the job, I just decided that I was getting out

of this, I'm just getting out of this but what I did agree with Weston was I would stay and help in any way I could in passing over... a formal passover to... and I went down to Thabo's inauguration with Kevin and I shared everything with Kevin about the whole deal, I shared everything, what I've shared with you today, I shared everything with him, my views on agents, my views on who the personalities were and what they did for us. I said nothing today that I hadn't already briefed him so he went in and he closed the deal and he closed the deal and he was the closer, no one else, he was the only person in a position to close, a) he controlled the price, what price it was and b) he was controlling the agents because he was the head of the marketing regime.

L JONSON: How long was he in the job before he left?

A MCDONALD: About two years.

L JONSON: Do you know... so...

A MCDONALD: He went to head of Westlands, he went to Westlands so...

L JONSON: In say 2001?

A MCDONALD: 2 maybe, 2, 2, he went to Westlands, and let me tell you... I'll tell you I think I can answer that I've got it in my notes somewhere, he went to... and he did the deal with Fana on the helicopters.

L JONSON: Oh did he?

A MCDONALD: The one thing that was dropped from the process was the helicopter deal. Oh right... 'The

contracts underlined was signed in December 3rd, 1999, they became effective on the 1st of April, one was noted on its absence the Maritime helicopter. This contract was deferred and I understand that Kevin left BAE in early 2000 to go to GKN. He engaged the services of Fana to help secure the finalisation of the contract for the four super lengths the under Maritime helicopters from Augusta Westlands for deployment aboard the South African patrol quadrants.

- L JONSON: I think you said 2000.
- A MCDONALD: 2000 it would be, yes he left in 2000.
- L JONSON: Okay.
- A MCDONALD: Sorry maybe 2001, it must be 2001 sorry, it must be 2001, so it's about that timeframe sorry.
- G MURPHY: Alright to move on? Yes?
- L JONSON: Yes.
- G MURPHY: Can I move us on to look at some documents?
- A MCDONALD: Yes.
- G MURPHY: I think things will start to fall into place, certainly in the chronology of things if we start to work through a few documents. If you have got your document bundle there which I see you have, if we could first go to page eight in that bundle. Now I'm going to have to read out every time we look at a document, I have the unfortunate job of having to read out that long number at the top left-hand corner, and that's just so that we can identify these particular documents. This is DOCMan reference

009571000035. We can see there is a memo here, which is to Hugh Dickinson from Noel Potter, and it's an Osprey Aviation...

A MCDONALD: He was the managing director of Osprey Aviation, he worked for Richard.

G MURPHY: He worked for Richard?

A MCDONALD: Yes.

G MURPHY: And what sort of role did he have within the... within this contract?

A MCDONALD: Well he was Richard's managing director, and prior to that he had done a lot of work with the Air Force in terms of aircraft maintenance so it was... he went to become managing director of Osprey, he didn't stay very long, I think went back to his job of providing maintenance support to the Air Force but Richard brought him in because of his Air Force contacts and he would just... he became his managing director and he would really just followed whatever roles, just did whatever Richard would ask him to do.

G MURPHY: Okay. You say he didn't stay long, what sort of time frame was he around can you remember?

A MCDONALD: Probably he was... when I first met him; he wasn't working for Richard so within a few months of meeting him, he joined Richard and within about 18 months to two years had left Richard to go back to his previous job.

G MURPHY: Right, okay, okay. If we can go down to the second paragraph of that... the same document, it says there 'Obviously with Osprey continuing, under Allan McDonald's leadership, to be heavily

engaged in the campaign to place Hawk with South African Air Force', seems to us to be a little bit of a contradiction in terms there because Osprey you are not Osprey, but under your leadership. Can you just explain...

A MCDONALD: I think what he means here is that obviously 'With Osprey continuing to be heavily engaged in the campaign to place Hawk and ultimately Gripen with the South African Air Force under Allan McDonald's leadership', it's meaning that I am leading the whole and I'm using Osprey and Richard very much as I said to you, the employee of us.

G MURPHY: Right.

A MCDONALD: So I think he's just put...

G MURPHY: It's just, yes...

A MCDONALD: It's really just under McDonald... I had no management... I never...

G MURPHY: No, I know.

A MCDONALD: I hardly even visited their offices you know?

G MURPHY: That's become very clear from what you've said already, I thought we'd just clear that up.

A MCDONALD: No, no, no I saw that the other day 28.07 but I think what he meant to have said was, as I've just said, was if it fell... if it came in under Allan McDonald's leadership... it was why he mentioned me to Hugh is to say to Hugh 'Look, you can talk to Allan McDonald, he'll tell you we are still heavily engaged and we want our... he's still chasing up renewal the agency', that's what that was all about.

G MURPHY: Right, okay...

A MCDONALD: But he was not aware of the other agreement, you notice he doesn't mention...

L JONSON: Huderfield.

A MCDONALD: Huderfield or Kevan.

L JONSON: You don't think... you don't think he was aware?

A MCDONALD: No because Richard used to come over... he never discussed Kevan in country ever, and he used to discuss Kevan only with Hugh Dickinson either in London or in Geneva, and see I used to know Richard, he used to tell me that because I was always controlling of employees and he says 'I've got a meeting with Hugh Dickinson in Geneva to talk about Kevan' and that's how I'd find out about Kevan you know so I thought Kevan you know and then I realised my company, my overt company, and that's when I realised he'd share it with me.

L JONSON: But you obviously knew the overall amount that he was getting?

A MCDONALD: Yes I approved that. As I got more and more involved, everyone's level of agreement I approved, don't, you know... so I'm not walking away from... I approved it. See I was of the thought that I'm not going to challenge things until I'm deeper into the... and become more meaningful and it was renewed annually so I had a chance to review it. The whole British Aerospace strategy and this is what Dick told me, he said 'You tell them they can have whatever they want at the outset, get as many

embraced, and as you get closer, takes you four or five years, you claw it all back, and you make a small amount' and he says 'You get to the point that they want to be on board, it's going to happen and they are desperate, they'll take whatever you give them' and that was kind of the philosophy, you know so commission levels was not a big issue for me at this stage in the project.

G MURPHY: You have mentioned overt and covert already, was there a limit, an upper limit that you could work to for overt?

A MCDONALD: Well that when it was established but that you could get away with declaring, and I think it was 2% in South Africa.

G MURPHY: Okay.

A MCDONALD: The overt... nobody really... the only reason the overt ever comes into these agreements is where the procuring nation would agree that consultancy payments could be made but there would be limits established and I think in South Africa it was 2%.

G MURPHY: Okay.

A MCDONALD: I think it was, now that's not... it should be somewhere in our records... so you don't think this... I have asked this question and got a definitive answer at one stage, it's just at this stage so long ago I cant recall what the definitive answer was.

L JONSON: Well that would be my question because obviously South Africa were told a very different figure

to what the percentage that was ultimately paid, did you ever speak to anybody about this?

A MCDONALD: No we never... at no time, at no time, did anyone in British Aerospace to my knowledge, certainly no manager, at no time would I ever discuss with anyone, other than the consultants themselves the subjects or executives of the company through committee, that there was any commissions being paid. It was... you know, you just did not discuss this.

L JONSON: Do you know who is responsible for making the representations to the South African government that there is only 2% or whatever is the commission, do you know who would have to sign that off, is it part...?

A MCDONALD: It's part of the submission, it's part of the submission that you have to declare each... in our British Aerospace... you'd have to go and look at the final contract but when we were preparing the contract, I didn't realise I was going to have an early departure so I was already planning all these, but there is a section in the submission that you have to declare what commissions are being paid and I am sure we declared Osprey, I'm sure we will have declared Osprey, I'm saying have declared, I'm sure we will have, because that was the only reason we ever had Osprey in the separation because we knew we had to step up and declare something.

P PATERSON: I think the South African press commentary confirms that everybody knew Osprey.

L JONSON: Oh yes I think that there is no question about that, it's just do you know who signed off on the contract itself from BAE?

A MCDONALD: Oh Kevin.

L JONSON: At... it wasn't done by... was Kevin board level? Would the actual contract have to be signed by someone like a CEO or Chairman or something like that or...?

A MCDONALD: Submission? No I think it was because when Kevin is operating as head of the Marketing but is also had been running Military Aircraft so... maybe John Weston signed it off but I don't know but it would be unusual, to my mind Kevin would have carried the authority. I mean if I had still been there it would have been Kevin and I who signed it off, or I had been there and Kevin was head... there are two signatures, you need the head of the... like the Primus inter pares, you need the man who is in charge of the marketing, and the man that was in charge of the business that was selling the product to have signed it off, which would be, I don't know who took over from Kevin so it would probably be one of Kevin's direct reports that would have succeeded him so Kevin would have been able to say 'Sign this' to that guy and he would have signed it off, I'm sure about that, he would have signed it. I mean I don't believe that people like Turner or... I don't believe that anybody in the company would have known the detail or would have been able to challenge or to... I mean

signing off is a very responsible action. I don't believe above Kevin's level that anyone would have known the detail of... or would even... see like Dick did not... when Dick stepped out of Operations he did not want to know about the committee anymore. I mean I don't think that Dick was ever copied on the Committee papers, you know the Referrals Committee. I don't think he was even in the circulation. Once he stepped up to Chief Executive, you know you've got the Financial Controller of the company who became Financial Director, George Rose, you've got Mike Turner chairing it who is Chief Operating Officer of the company with the other one John Weston, so he's got a Chief Operating Officer, you've got the second in command in Financial, and you've got head of Legal, a Phillip Riley who was sitting on this committee. I mean so fairly high powered boys, one legal, one financial, one operational, signing off everything so as far as the... that was the body that decided 'Yes we are going to do this' and the...

G MURPHY: We'll still come back and pick that up again when we move into that. We can move on to the next document, page nine in your bundle which is 013651000023. As it states 'These are the minutes of an inaugural meeting of directors for British Aerospace South Africa PTY Limited. What was the idea of setting up British Aerospace South Africa?

A MCDONALD: Well we... Osprey... everything was seen to be done through Osprey. We are an international company and everything we were doing in South Africa was seen to be done through Osprey Aviation and we're an international regime and Osprey was tarnished having done business with the old regime so I was very uncomfortable with a) here was us highly responsible business doing a lot on repositioning ourselves as a good corporate citizen with Richard trying to attract all the glory into Osprey when I was trying to promote the good name of British Aerospace so it was me that proposed we set up British Aerospace South Africa as the focal point for all our activities in South Africa to be seen to be a good corporate citizen because we were talking about taking an acquisition in Denel and ATE, going to be involved in Offset you know I didn't want everybody coming down, working out of the Osprey offices, so we set up our own offices but I didn't want to alienate Richard who had devoted himself you know to this so making him Chairman of South Africa British Aerospace, he was so happy, I mean he was so proud to be Chairman of British Aerospace South Africa, I mean he was so proud.

G MURPHY: Right.

A MCDONALD: That was one of my great tactical moves I felt, you see I put Osprey where they should have been, gave him all the status and got what I wanted out of it which was really recognition

that BAE was back in South Africa. You see BAE used to be in South Africa pre-apartheid and then pulled out and this was really coming back in. It was encouraged too by the Ministers, most of the Ministers I spoke to criticised our involvement through Osprey all the time. I mean I told you that he was seen as part of the old regime, Richard you know. So this was a way of trying to say 'Ministers we're listening to you', and Dr Mji who is a surgeon from Cape Town, he's a surgeon.

G MURPHY: Right.

A MCDONALD: He's a medical surgeon. It was recommended that for black empowerment, we bring someone like him on board.

G MURPHY: Who recommended? Who recommended that?

A MCDONALD: Who recommended Dr Mji? It came through Richard but I know I checked it out. I checked it with Joe myself, I got Alan Curtis to check that with Joe, to check it with... who else? Stella, I think we'd have checked it with Stella Sigcau as well.

L JONSON: Public Enterprises.

A MCDONALD: Yes. We would have checked... But Alan... I know I checked it out because it was recommended... Richard came back and said that a Dr Mji had been put forward, now I think he was put forward by... he's very friendly with Thabo's brother, Dr Mji, very friendly with Thabo's brother, and it came through... now I'm not quite sure this is right but I think what happened is that at a

function where Richard was at, he met Thabo Mbeki and he said to him that British Aerospace was forming South Africa and he said he was very pleased to hear that and he said 'I hope you are going to have some black empowerment on it'. So I remember Richard you know phoning me up you know it had even reached the Vice President level you know that he hoped we were going to have some black empowerment and I think that triggered in my mind to ask Richard to go and see Joe as to who they wanted that to be, you know, who would they think would be a good black empowerment representative, but I asked Alan Curtis to make sure, I think this is the way I went about it, to make sure that a non political... a non defence, non aerospace type appointment.

G MURPHY: Right.

A MCDONALD: And then they suddenly produced this guy who was a surgeon from...

G MURPHY: Was he a practicing surgeon?

A MCDONALD: Yes in the...

G MURPHY: So what's the Mji consortium then? Have you heard of the Mji consortium?

A MCDONALD: I don't think that's him. I don't think that's anything to do with him. He's a surgeon, he's a surgeon from... what's the... where did we... Peter's brother is in South Africa so he knows... what's the next big city, not Cape Town, not Johannesburg...

P PATERSON: Durban. Durban, he's in Durban working with

AIDS people isn't he?

G MURPHY: Could you turn to page 16 in your bundle? So three quarters of the way down, there's the Mji consortium, and it's looking at what the various bodies here bring to the overall concept and it's got 'The Mji consortium bringing political access, transformation and empowerment and union relationships'. Is that not the same as Dr Mji?

A MCDONALD: Yes, no it's the same thing but we were trying to... we were trying to say right, if we're developing British Aerospace South Africa right, and it was going to be done in a sophisticated sort of way, what were the roles... give kind of key points that we wanted the non-exec directors to be driving and Mji was political access because Thabo's brother, transformation and empowerment because that was something he was very much into, and union relationships because he was a black South African you know so that's what that was all about, but he didn't last long.

G MURPHY: Did he not?

A MCDONALD: Oh no, he was... I mean he fell out with Thabo's brother, and we got a message to say that they really didn't want to see him on the board very much but we were... he disappeared from the... by the time I had left he had gone from the scene.

G MURPHY: Right.

A MCDONALD: So I don't know the... he could have resurfaced but I would be surprised if he appeared anywhere after I left because he had already, by the time

I left, had kind of... he'd upset Thabo's brother over something and the... and the... or it could be Thabo himself, I don't know what the... we were told he was no longer in favour and he didn't... he stopped attending a lot of the meetings because he was tied up in Durban and he wasn't... all the stuff that he was supposed to be helping us with, coming in with a view on black empowerment and all that, he was very ineffective. The man who had effectively took that role on was Fana.

G MURPHY: Oh okay.

A MCDONALD: The person who helped British Aerospace to understand black empowerment, union relationships you know, and political access was really Fana, he took that role on.

L JONSON: What was his job at the time, his paid job?

A MCDONALD: Well you see in terms of... he did this unpaid. I mean as we got closer to him and he saw British Aerospace as professionals in the way we were going about it, I think Fana warmed to us very much and I think he realised that the Minister was warming to us very much in terms of he said to me... I was not surprised we were down selected because we had done such a great job. I could feel you know... Ronnie Kasrils is such a great guy you know, a fantastic individual, was the one that was more to task more than anyone else but he always treated British Aerospace and us with great respect and Fana would give us steers about black... we'd ask Fana about black

empowerment, who were the people we should talk to, what we should do you know in terms of... but he was always exceptionally helpful in that area, and eventually to the extent we had the conversation, you know 'How do I continue to have a relationship with great companies like you'? I said 'Well you can't if you are a member of government, so you'll first have to leave government', I think that was the first time I had that conversation with Fana which would be quite later on in the process and he said... and then he realised that straight away and I know he resigned, I know he resigned because he had great pleasure in telling me he resigned before... when I met him at Thabo's inauguration he was no longer a member of government, that would be about May or June.

G MURPHY: Okay, we'll move on again. If you turn over the page to page 20, which is DOCMan reference 013651000034, right at the top there we have got officers emoluments, and then the notes, note 1, paid officers being Richard Charter and this is Dr Mji.

A MCDONALD: Yes.

G MURPHY: What were the salaries for? Certainly in the case of Richard Charter was he not still really operating through Osprey, was he not earning his salary, submitting his expenses etc through Osprey?

A MCDONALD: Well yes he was submitting expenses, but what Richard was saying... what the position that

Richard was taking... I can't recall the breakdown of who was getting what but just let me... Richard wanted to be able to report... you see when you appoint non-exec directors, even in British companies, you are given a fee, in the Royal Bank or any of them.

G MURPHY: Yes.

A MCDONALD: I mean I have friends who are members of the Royal Bank non-exec and they pick up a fairly good fee to be a non-exec member. So Richard wanted to have it on record... first of all Richard to my mind was a very greedy man, a very greedy man, but not dishonest by nature, not a dishonest man but very greedy and always was looking to recover money at any opportunity, but there was also a pride issue with Richard that he wanted to be... as he was going to be Chairman, he wanted to be able to declare that he was a non-exec paid Chairman so it gave great emphasis to his role and in terms of Dr Mji, we were told whoever we bring in as our black empowerment representative, if we really believed in black empowerment, we make sure we pay them.

G MURPHY: Yes.

A MCDONALD: Because he was only paid a surgeons salary in Durban. So that's why they got those emoluments.

G MURPHY: Yes, okay.

A MCDONALD: In context I mean, these are not big salaries, I mean Nigel Irving, for example, at that time, correct me if I'm wrong... if I got this wrong,

but he would be earning you know, £80,000.

G MURPHY: Niall Irving?

A MCDONALD: Niall Irving, who was technically you know, in terms of what was going on, junior to Richard, you know, and if these boys were splitting that you see.

L JONSON: But obviously Richard was going to get a fairly hefty fee if the deal came off so you know...

A MCDONALD: Yes but I was using him almost as a full time person, I mean just in terms of a resource if you follow me, I was just trying to put a value in terms of what you pay on top, so the guys in full time not doing as much you know, were getting £70,000. I don't think that was too high a fee to pay for the two of them.

G MURPHY: Okay.

A MCDONALD: I did think later on that we were paying Dr Mji too much but that was another matter.

G MURPHY: Okay, the time by my watch is 15.30; the time elapsed; counter 45. Stop the tape.

(End of Tape 5)

TRANSCRIPT OF INTERVIEW HELD AT TODS MURRAY LLP, SOLICITORS,
EDINBURGH QUAY, 133 FOUNTAINBRIDGE ROAD, EDINBURGH EH3 9AG ON
TUESDAY, 14TH AUGUST 2007.

CASE REFERENCE RLI02

TAPE 6 OF A BATCH OF 14

PERSON BEING INTERVIEWED: MR ALLAN MCDONALD

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MR PETER PATERSON	-	SOLICITOR

B SMITHWHITE: This is the start of tape six of the Section 2
interview with Mr McDonald, the time by my watch
is 15.40. Please can you confirm Mr McDonald
that we have not discussed any matters relating
to this case during the interval since the end
of the previous tape?

A MCDONALD: I can confirm that and I can also confirm we are
all still present.

B SMITHWHITE: Thank you.

G MURPHY: Stick to the same document, but if you could
turn to page 10.

A MCDONALD: What page... sorry page 10?

G MURPHY: Yes page 10, and that's DOCMan reference

RLI291

Corrected Transcript

013651000024. Last paragraph, there is a mention in there of a Project Ukhozi, do you know anything about Project Ukhozi, what that is?

A MCDONALD: No, I can't immediately recall but I should know, the name is obviously familiar to me, it's not something I haven't heard before but I'll think about it maybe come back to you but I should know, it's just not triggered a point yet.

G MURPHY: Okay, alright that's fine. If we turn over the page, page 10, its paragraph C, yes? It mentions the Marketing team were focussing on four main issues, I mean at the time of this document, who was your Marketing team?

A MCDONALD: Well at the time of this document, it would be myself, Richard Charter, Niall Irving, Stuart McIntyre and Andy Humphreys. That would be the Marketing team.

G MURPHY: Okay.

A MCDONALD: And always on standby Sir Patrick Hine. Did I mention...

G MURPHY: And Sir Patrick... ?

A MCDONALD: Did I mention Stuart McIntyre, Niall Irving... ?

G MURPHY: Yes, you had, yes, yes.

A MCDONALD: Oh yes and David... David... he was the technical guy for Wharton... his name will come back to me, he was... he retired just at the end of the program.

L JONSON: Oh, Williams?

A MCDONALD: David Williams, thanks, very good, thank you.

L JONSON: We'll come to his name later.

A MCDONALD: Yes David Williams, thank you, he was part of the Marketing team and he was sitting in these meetings as well.

G MURPHY: Right, okay. Now we know obviously your role in paragraph 53, and it says in the same document 'To lead political lobbying process'.

A MCDONALD: Yes.

G MURPHY: Is that how you saw your role?

A MCDONALD: Yes I was to, you know, to try and find out who... what Ministers were coming. Work with Charles targeting right across the complete Ministry spectrum of each of the Ministries that were going to be key to the... because we understood... we'd already defined as part of the Marketing plan the Ministries that were going to be involved in the down select process which would be Finance, Trade and Industry, obviously Defence, Public Enterprises and Geoffrey Davies organisation, there were five Ministries involved, five Ministers, five Ministries and we had a plan in the Marketing process about how we were targeting each one and an update of how each would go and what... how successful we'd been at either through government Ministers or through our own offices at getting a session with them, you know.

G MURPHY: Yes, yes. I think I'm very clear on everybody's role and how they fitted into this Marketing team, but I may have missed it, Stuart McIntyre, what was his role?

A MCDONALD: Well Stuart, he was effectively the... the... he was like my lieutenant if you like, he was writing up... he was managing the master plan in terms of if you said let's... where is this documented, who is documented, who was doing the planning process of following up, because he was a junior compared to the rest of us, a very clever person but he was the junior guy and he was writing all of this up.

G MURPHY: Right.

A MCDONALD: So he was... you know when I said we had the mapping plan?

G MURPHY: Yes, yes.

A MCDONALD: He managed it on computer.

G MURPHY: I do remember you saying that, on computer.

A MCDONALD: He... we had all of this... I mean I just don't have it for you and I couldn't tell you where it is today but this was a sophisticated... I mean I don't want you to think that this was like... that this was wee memo's and that, no this was like a sophisticated modelling process on computer, we could throw up on the screen, pick up slides, who was doing what, actions, follow on actions and all of that.

G MURPHY: Yes.

A MCDONALD: I just didn't send memo's to the agents.

G MURPHY: No.

A MCDONALD: Just you know nor did I ask them to give me reports because we'd put it on record which is what we never ever did which is what I want you to understand but we... internally I'm sure much

of... you know we'd have reported things that we had found out and it would come up in these reports.

G MURPHY: Right and was it given a title? I mean you would call it a mapping document or a...

A MCDONALD: Oh yes it would be the...

G MURPHY: If we wanted to ask for it specifically, what would you... what could we call it?

L JONSON: I mean you said 'modelling process'...

A MCDONALD: Yes it was modelling and mapping, it was a model. It would be the South Africa Hawk and Gripen... it would be the Defence Winning Plan... it would be something like Defence Winning... the word Defence or Winning... Defence Winning, the word winning would come into it.

G MURPHY: The word winning. Was it maintained in South Africa or back in the UK?

A MCDONALD: In South Africa.

G MURPHY: In was maintained...

A MCDONALD: In South Africa.

G MURPHY: In the office of BAE South Africa?

A MCDONALD: In the office on Stuart McIntyre's computer.

G MURPHY: On Stuart...

A MCDONALD: He would give us copies of... he would give us copies. So Stuart McIntyre's... well it was a British Aerospace computer.

G MURPHY: Yes.

A MCDONALD: In the...

G MURPHY: And that was still in operation at the time you left?

A MCDONALD: Oh yes, very much so.

G MURPHY: Yes.

L JONSON: Were there paper copies of it as well?

A MCDONALD: Well there would be... what would happen is we would then do the reports that I said, the monthly reports as the Managing Director which we would summarise from those documents, so I'm sure they produced hard copies but I don't know you know... I'm sure they would keep... I tended to operate let's all... when we... let's all work off... this meeting for example, we'd all be working off a PC. I was a paperless freak in those days, let's keep paper... we'll do electronic but when... he would produce, if necessary, copies of it, yes he would produce copies of the mapping process. We used to take Sir Charles and IMSO through it, I mean we did, we produced hard copies. They would have on their records the updates that we would give them.

B SMITHWHITE: Would it be sent to anybody in Farnborough at all?

A MCDONALD: Well Neils Peterson used to come over for the meetings and he would certainly either take an electronic copy or hard copy with him. I never any... I was quite pleased to show this off, I mean there was no... we were very discreet at the meetings not to... to discuss... I mean just so; I didn't want to waste a lot of time so there was this... if you want to see a more articulation of what I was saying was 'Who are we campaigning, what are the messages', you'll see all that in it, but at no stage will you ever see anything

of the covert aspect of this. It was never discussed under any circumstances at meetings.

G MURPHY: Right.

A MCDONALD: Niall Irving and Stuart were not privy to any of this.

G MURPHY: Right.

L JONSON: Were never privy to what?

A MCDONALD: To the covert arrangements. When Niall Irving was put on this by Kevin Smith, you'll see somewhere that... it says in this memo that Niall Irving was delegated to go and review the commission levels, it says it in these papers.

G MURPHY: Right.

A MCDONALD: That was after I left and it was the first time that Niall would ever have been given that responsibility.

G MURPHY: So that was the first time that they would have become aware of covert commitments?

A MCDONALD: I would say that, you know, not being stupid like me when I was in the Saudi program, I think that they were aware that there were some arrangements taking place, but it was not their remit to go anywhere near it, only mine.

L JONSON: Would they not have been aware of, for example, of any involvement by Pelissier?

A MCDONALD: Would have know Bredenkamp, would have known Pelissier, yes they would, yes they would. Would they... would you say to them would they know any details of arrangements or how they were engaged, no they wouldn't.

L JONSON: But they would know that they were figuring on

the...

A MCDONALD: They would know that they were on the scene, they would know they were on the scene and they would be able to tell who they are, pick them out, having had meetings with them. I mean because they would bump into them so they would never... they would never have had a briefing to engage with them. Sorry never had a briefing to engage with them on any aspects of the commercial, of the personal and pertinent relationships between those team members and British Aerospace.

L JONSON: Okay.

A MCDONALD: They knew that they were consultants. They knew Alan Curtis was a consultant, but they would never... they would never... nor would they... they were discreet enough to... they would say, you know, you might get in a report... you will see Alan Curtis... you'll see everyone's name mentioned in these reports. 'Alan Curtis travelled with the Minister on such and such and we will have hoped he will have conveyed the following message', right?

G MURPHY: Yes.

A MCDONALD: But you will not see anything like...and you know, and gave the Minister a few bob in the process. I mean that just wasn't... we just didn't do business like that. I mean I know that this is the impression but we just did not do business that way. That was not our approach. We were there to be highly

professional in what we did and these guys were very, very professional people. All of them.

G MURPHY: Something is on my mind and I think I'll deal with it now. I can see what you were setting up when you went to South Africa, the whole new process, the whole new clean phase if you like. You know, let's bring the new government into, you know, to work in a way that's internationally accepted and I can see all of that. But sometimes old habits die hard, and I'm just thinking to myself there must have been times when government officials, Ministers, would be looking and turning round and saying 'Well if I went and dealt with the French, they'd give me X amount of pounds to go in a bank account somewhere and why should I stick with BAE and do business in this new way, if I can go elsewhere and get money for it?', did you ever come across anything like that?

A MCDONALD: There was two... I can give you two examples. So you are quite right, so we have to get into the real world.

G MURPHY: Yes, old habits die hard.

A MCDONALD: So there was many people, when you realise that these people... there was black empowerment taking place so everyone wanted handouts, everyone was looking for handouts you know, black empowerment was meant as... well what was generally said in South Africa just to put the thing in kind of wider context was that we may have got the political infringement, but the economic

infringement is still with the whites. Now that was the general view in South Africa so black empowerment was trying to shift economic empowerment and everyone was out for what's in it for me? I mean generally everyone was in it for what's in it for me? But you know, you are a professional organisation. Now, two individuals, one is a member of parliament who is head of the... Stuart McIntyre... now I can't recall this guy's name but Stuart McIntyre was the guy he made an approach to. He was a member of parliament, he was head of the Defence Review Committee, and we should be able to get his name because he was jailed, and he...

L JONSON: He was jailed? Not the guy who was jailed in South Africa?

A MCDONALD: Yes.

L JONSON: Oh Shabir Shaik?

A MCDONALD: No, no, not Shabir Shaik. Two guys, one was head of the Defence Review Program, and he was jailed, and the other one who was a member of that committee, approached all the countries and asked for fees. Would he... would he... would they assist us? They approached Stuart McIntyre and asked, and Stuart came to me with it, would we consider giving them fees to help make sure the decision went British Aerospace's way and we responded that we did not do that sort of thing. He attended... this particular guy attended our Christmas party in Johannesburg, but wanted to leave early to visit a relative who stayed about

three hours away, and asked if he could borrow my car. Well I don't have a car so I turned to Niall Irving and said 'Give him your car Niall' right, it's a Friday evening, and he disappeared for 72 hours with Niall's car, right, and we didn't report it to the police because we were waiting for this guy to come back again. Now he came back and we eventually got the car back and he asked if he could keep the car, and we said 'No you can't keep the car' but he brought the car back but he... he was jailed. One was jailed and one was sentenced to be jailed and the jail... it wasn't carried out but by tomorrow I'll have found out the two names. But both were members of parliament, both were members of parliament, and one was Chairman of the parliamentary Defence Review Committee and the other guy was a member of that committee. But they were jailed because they took bribes from the German's.

B SMITHWHITE: Tony Yengeni?

G MURPHY: Tony Yengeni?

A MCDONALD: Tony Yengeni.

L JONSON: Oh he was the Chief Whip?

A MCDONALD: Well he was head of...

G MURPHY: Chairman of Defence Committee until 1999.

A MCDONALD: Tony Yengeni. Tony Yengeni was the guy that borrowed Niall's car and he approached us and asked us but we refused to... and Patrick Mombendi I think it is, Patrick Mombendi, a great big, big guy, he was jailed. He took money from the German's it was found out and he was jailed. So

those were the two. So yes it was going on, but you see if you imagine... well here's the... I'm not... I'm trying to give you as clear and honest a picture. If I had asked any of the guys at work to play a role for us, like Joe's or any of them to take care of these people, they would have done. They would have done it, but that would jeopardise what I was trying to do. So I didn't encourage, I did the very opposite, I discouraged any sort of approach of that nature and I think if you talk to Stuart and Niall, they were saying they were all ready... I said 'Look, Tony Yengeni, these guys, Patrick Mombendi, they will suffer the consequences of their actions if they keep pushing this like' and before the whole process it happened... it materialised that they were out. You know...

L JONSON: Do you think any of your passive agents, in particular, do you know if they had any dialogue with other members of BAE apart from yourself during this period?

A MCDONALD: Yes.

L JONSON: Who?

A MCDONALD: Turner was briefed regularly by Bredenkamp and Pelissier. Turner was briefed regularly and I would expect that Nabil would be talking regularly to Dick but not on South Africa.

L JONSON: Sure.

A MCDONALD: Just on... because they were quite close friends, well quite close, I don't know if friends but they were quite close.

L JONSON: Because obviously one of the scenarios is possible from what you are saying is that whilst you and your team were trying to win the deal using legitimate means, people like Bredenkamp who are getting, well originally 7% but ultimately 4% of the deal, twice as much... almost twice as much as their closest rival, Richard Charter, there is a possibility presumably that they are being briefed to act in a different way by other people within the company. Do you see what I mean? I.e. it is possible that they are acting without your knowledge?

A MCDONALD: I think it would be very difficult for them to be active in South Africa without me knowing about it because...

L JONSON: But why are they briefing Mike Turner direct?

A MCDONALD: Because there is a big... there is a massive credibility issue. You see power politics, power politics...

L JONSON: I know, I'm fascinated.

A MCDONALD: Power politics is a big... I've come out of commercial aircraft with a massively successful record right? Very much promoted by Charles Masefield as a way we should go about doing marketing, this is the way we should... he's in DESO doing it, I'm in British Aerospace Defence doing it, and you know in terms of... you know Mike is very close to Dick Evans, very close to Dick Evans and got offered the Chief Executive job, I'm very close to Dick Evans, but my closeness is about Dick likes me because I

deliver. You know he knew me from the Saudi days, I always deliver what I say I'm going to do in commercial aircraft, stand up, be counted, do it. Motivated, everyone that worked with me I think, if you find any of these guys that worked with me, highly motivated, very focussed, knows what they had to do. Great team effort, I was a great team player, tough, never asked people to do what I wasn't prepared to do myself but was very demanding in terms of what I wanted done, so I think that Mike wants to keep his eye on me.

Mike wanted to keep his eye on me in terms of, you know, he... I was developing relationships that only Dick Evans had in the company, at governmental level, you know, when... I mean when we were at the Farnborough air shows for example, not the first time, but the next time two years later, when Joe Modise came up in front of the whole British Aerospace party and there was probably 50 senior executives from British Aerospace and he gave me, you know, the big hug the he gave everybody and you know they have a particular grip and there are six movements on the grip, well I did that with Joe in front of everybody you see and ANC... the ANC shake and I did that in front of everybody with Joe and then all these Ministers, all these guys wanted to do the same, I was there for about five minutes doing all this stuff you see, and Turner was not happy with that, I mean no...

Turner was unhappy I think, you know, I think that I was developing these sort of relationships and wanted to know, you know, wanted to find out from Bredenkamp, but in fairness to Bredenkamp and Pelissier from being doubting Thomas's, I think they were becoming believers in my approach. I mean to me... I mean I'll just say this to you, I think these guys got a massive windfall for doing very little, a massive windfall for doing very little. Now I don't know what evidence you have got of what then took place, but I can't... I never asked them, never sought, never needed their help to influence anyone.

L JONSON: No.

A MCDONALD: But they always wanted to.

L JONSON: And if they are having a dialogue with other people, were you present?

A MCDONALD: No.

L JONSON: You don't know what Mike Turner might have said to them or...

A MCDONALD: Well Jules was fairly honest that Bredenkamp had been to see Turner and was quite positive about the way things were going on, but they were meeting regularly, you know, and Turner would say 'I've got a meeting with Bredenkamp' and Turner always liked to let you know, 'I'm in the scene, I know what's going on'.

L JONSON: So as far as you are concerned and I mean we will come on to deal with Kayswell later, did Bredenkamp himself have an operational

involvement in the South African..

A MCDONALD:

Never.

L JONSON:

But he was briefed... why was...

A MCDONALD:

Because Jules briefed him. Jules was headquartered... you see Trevor Wilmans was headquartered in South Africa, Jules was headquartered in John's offices which were near Farnborough, and John has a big set of offices, beautiful offices out there, and he used to go... he used to go back and brief John and John used to go in and see Mike. And Mike... I mean Mike never visited South Africa, Dick came down I think twice to support us but I mean they ran out 24 hours, they just didn't want to know, they just didn't want to know.

L JONSON:

But you say that he certainly spoke to Turner about South Africa?

A MCDONALD:

Regularly, regularly. I knew that because Turner told me he had seen Bredenkamp, I've had an update, you don't have to tell me I've had an update from John Bredenkamp, that's enough you don't want to hear anymore I've had an update from John Bredenkamp, I'll listen to what he's got to say you see.

L JONSON:

I just struggle to see what kind of an update he could have had bearing in mind he wasn't involved..

G MURPHY:

Wasn't involved in your campaign..

L JONSON:

And Pelissier, as far as you..

A MCDONALD:

No, no, as I was saying to you Pelissier would tell me what my plan was, he would tell me who

was making what with the German's. You see we never... you see what I didn't do... so I may have misled you and I don't mean to do that. I never hid anything from Jules Pelissier or Trevor. I told them what we were doing. I told them who we were trying to influence, and why we were trying to influence, we were trying to put an economic argument, or a finance argument. This was all new; this was game they'd never played before. But in fairness to Jules Pelissier, he always tried to help. He tried to 'Oh he's a key man, we found out he's meeting such and such'. He was always coming back with what he considered to be gems of information and I never said to Jules in all that time 'I already know that'. I never disillusioned him.

L JONSON: No, but I suppose we have just come back to the same question, which is you are out to make a profit on this deal, and 4% of it on Mike Turner's say so from what you are saying, is going to people who contributed absolutely nothing and it's that I'm just trying to find it a little...

A MCDONALD: Well I have said from day one, I said it from day one, I said it in every review that took place, but Mike made it very clear that... made it very clear that these guys were to be incorporated in the deal and you know, I said 'Fine' and I wasn't going to make an issue of it until it really mattered and when it would matter was 12 months further on than I got the

opportunity to deal with, but I would have made an issue of it. Because you see, unlike most people in Aerospace, I stood up to Turner; I was not Turner's lackey. When he came in to commercial aircraft for the last two years, he fired every general manager and Sid Gillibrand said 'If you fire McDonald, you'll lose the whole of commercial aircraft', so he promoted me.

L JONSON: What was Kevin Smith's relationship with him? Would he have stood up to him? I'm just trying to think what happened you know...

A MCDONALD: Well I think that Kevin was new to marketing, Mike was the experienced hand in marketing so he would not... he would have followed Mike's lead for sure. He... Mike had... Kevin had no marketing experience whatsoever, no marketing experience whatsoever, less than me.

Less than me and I had at least commercial aircraft marketing experience and through some of the stuff I did at Scottish aviation, I dealt with the Ministry of Defence, I should have said when I was at Scottish Aviation, I dealt with UK Ministry of Defence, so I knew all the government UK store's procedures, I knew all of that, so I'd done all that piece and I had dealt with the American government through the Lockheed, USAF used to send a party over. I had government to government contract experience plus commercial marketing experience. In fairness to Kevin, he dealt with Ministry of

Defence all the time in Warton, but he had never any international marketing experience, and he will have followed, he will have followed whatever lead he was given. At least he will have taken advice from Nabil and John Bredenkamp and just put it in place. If he... if he... you know that relationship I never understood. I never understood... I understood the Nabil Dick relationship, because that was long history.

G MURPHY: Yes, you were given the reason there weren't you, for that.

A MCDONALD: Yes.

G MURPHY: You might not have agreed with it but you were given a reason.

A MCDONALD: I was given a reason.

G MURPHY: Were you ever given a reason for the Bredenkamp Pelissier point?

A MCDONALD: Just that we'll need the help, we'll need their help when it comes down to it. We'll need their help when it comes down to it, but never any justification, never any, not for the levels their fees were picking up. Never anything of... and you know the... I think, I mean I just think if you said to me 'Did I... do I believe they did anything?' no. I think it was the biggest windfall that Bredenkamp ever had coming his way and I think he got it because of Turner, not because... I just, that's just my view.

G MURPHY: Do you still keep in touch at all with Dick Evans, Mike Turner.

A MCDONALD: No, well I... I used to play a regular golf match.

It was Sid Gillibrand, Dick Evans, myself and Mike Turner. Every year. When I left, for three years I didn't play it, and then I got a phone call from Dick's office saying... this is after I had left four years... I had to be in Washington for the annual golf game, he gave me about three days notice, and I said I couldn't make it because I genuinely couldn't make it, and I was told that if I didn't make it that would be the last time I would be invited. So I didn't make it, and that was the last time I got invited and really... I bumped into him, I see him from time to time, I saw Mike Turner more than I've seen Dick Evans but it's always friendly, it's always friendly, but...

G MURPHY: When was the last time you saw Dick Evans to speak to or a telephone call?

A MCDONALD: Probably... oh never a telephone call... probably... oh I'll tell you when, probably three years ago when I played in the Scotland Ireland golf match. Scott Greer organised it and I saw Dick then, very pleasant, very nice to each other. I saw Turner about 18 months ago. I was in seeing Sir Charles, because Sir Charles was Chairman of Microsulis, he was Chairman of Microsulis, unpaid Chairman, no salary, no fees, share options, but anyway he was... I saw Charles and Mike Turner was in the lobby and he came over and spoke to me then, I had seen him about four months before that at Tony Rice's going away party. I mean I...

P PATERSON: The golden wedding party...

A MCDONALD: The who?

P PATERSON: Were they at the golden wedding party?

A MCDONALD: Oh they never turned up, they were all invited to Paddy Hines' golden wedding party two months ago and they all went to the rugby instead and Paddy was very, very disappointed but Eileen and I travelled, we went to it because I thought Paddy deserved it because you know he's been a great servant he's retired from British Aerospace, but these guys, Dick and Sid, I mean a couple of them sent their wives but they didn't attend... I mean Paddy was really upset. But it's not that I'm avoiding them, but I just decided that British Aerospace was a part of my life that I just wanted to move on from.

L JONSON: Sure.

G MURPHY: Yes.

A MCDONALD: I mean the people that I do keep in contact with are, for instance, my Scottish Enterprise involvement, one of the guys from Scottish Enterprise wrote about five months ago in a magazine that the most influential man in his career was Allan McDonald so I phoned him and now I'm doing some work for Scottish Enterprise. I think it's positive for Scottish Enterprise, more for them than it is for me but it was just that sort of thing. So there are people in Aerospace or past Aerospace that I still keep in touch with. People like Bill Black who is on the board of EATS. He used to work for me so...

in the commercial aircraft side, more of an interest there than military. I'm not really... I never was a fan of the defence business.

B SMITHWHITE: Can I just... you were never on the board were you, of the...

A MCDONALD: I was on the operating board of the company, but not the company board. I was on the operating board, Dick created an operating board of all the managing directors, and I was on that as one of the five. So you had all the managing directors of the business, and the five managing directors of the region, and that used to meet once every quarter.

L JONSON: Which positions were on the board? Just so we know, the Chairman, CEO...

A MCDONALD: The... There's the non-exec Directors, including the Chairman, but the executive positions were; Chief Executive, the two Chief Operating Officers, which was Mike and John Weston.

L JONSON: Right.

A MCDONALD: Under Dick. Then the Financial Director, who was Richard Lapthorne.

L JONSON: Ah because he pops... I was going to ask about him because his name pops up in the minutes of the first meeting of BAE South Africa; I wondered what his involvement was.

A MCDONALD: Well he... George Rose reported to Richard Lapthorne.

L JONSON: Right.

A MCDONALD: And Richard, if you go and check the board, I'm told this is the board, but if you check when I

left, the first board meeting after I left the company, Richard Lapthorne asked did the company do absolutely everything possible to try and retain Allan McDonald and John Weston says 'We did, but his heart was set on going to Celtic' and he said... but Richard Lapthorne... and how I know because he contacted me, I was invited to a party of his about a year after I left the company, I think it was his 40th wedding anniversary, I was surprised I got an invitation. I always got on well with Richard but didn't have much to do with him but he told me at that party that he had asked this question and he said 'And I asked for it to be minuted' that he considered my departure to be a great loss to the company. So I didn't have a lot to do with Richard but I found him a very professional individual.

George Rose who was his number two was a very, very good financial guy, you know but he... Richard would have you know, if you copied him it would have just been a courtesy copy, he would have... I've never... when we used to have the Operating Committee every quarter, he would always ask with interest what I was up to and who I was seeing and what I thought the chances of success were, he always asked interesting questions of the Managing Directors, in other words, you got a feeling of encouragement but I think that was just because as Financial Director he wanted to come over positive because

most things with financials are negative, they'll cut budgets, too many people, but he is the Financial Director who always made positive contributions.

G MURPHY: I'd like to go to roundabout October 1997. Now as we understand it that was about the time that the request for information was sent out by ARMSCOR. Who at ARMSCOR was dealing with this issue?

A MCDONALD: Well Ron Haywood, who is non-exec Chairman, was taking a very active Chairman's role. Ron Haywood, who was exceptionally close to Joe Modise. See ARMSCOR was not regarded well by anyone in the country. It was very much seen as part of the old regime but Ron Haywood was appointed Chairman by Joe and Ron was trying to tailor make ARMSCOR to be more in line with the new regime and he brought with him... he seconded from industry, he's a marathon runner, a small guy, marathon runner, he's the Chief Executive.

B SMITHWHITE: Llew Swan.

A MCDONALD: Llew Swan. So he... they seconded Llew Swan as the... and he took... and he Llew was no fan of British Aerospace, Llew was very anti British Aerospace and they were the two guys that I would interface most with and I think at the end of the day I won Llew over. I won Llew over to be impartial; I won't say won over to be favourable to us, but to be impartial. Those were the two guys that ran ARMSCOR when I was dealing with them.

G MURPHY: Okay and upon receipt of this request for information, what happened then? What was the next thing that happened as far as BAE and your marketing team was concerned?

A MCDONALD: Well we, as soon as we received it of course we put it straight back into the headquarters at Farnborough and up to Wharton and up to SAAB and we visited SAAB and everyone in terms of preparing to answer the information memorandum in it's best form. So we were certainly... we had to educate... we spent a lot of time working on the Swedish response because they were so poor, not having done this before. So it was like pulling teeth, trying to get them to... But Wharton was pretty quick at getting...

G MURPHY: Because Gripen was part of the contract by now was it?

A MCDONALD: Yes we had got Gripen in... we had got... see what we did, one of the great things we did was going back a step when we defined let's have a requirement of what the defence requirement is of the country, so we said to Minister Joe Modise using Alan Curtis again, Richard Charter and particularly at this stage is... see I don't know if you realise Alex Roberts is a test pilot? Did you realise a fighter test pilot, Alex Roberts?

G MURPHY: No.

A MCDONALD: So Alex knows everything about flying. So he took the Minister through that you need advanced jet trainers and lead in fighters at your level

of air force and looking... doing analysis of where you are... what sort of... you know you don't want attack aircraft, you want lead in fighters that can act as more in a defensive role, what's affordable, we looked at affordability, and said to Joe that what he really needed was a complete evaluation by the air force of what they required, and coming out of that was the requirement for a lead in fighter, which gave us the first opportunity, because up to that point they were thinking Hawk can do both roles, right, but we pointed out to them the limitation, well through this review it came in, so then they said 'Well, let's go open up the whole air force requirement including helicopters' so they had a complete review, and Alex was very much influential in getting the Minister to go down that route, and Ronnie Castles led a lot of the detail of that review with the air force.

G MURPHY: Was it the two or three tier system that...

A MCDONALD: Yes well it... the first tier and second tier it's just people use different languages you see, but what first happens is you have got your primary trainers, in an air force your primary trainers. Then you have your advanced jet trainers which the Hawk... and then you have your fighter aircraft which was the Gripen. So what we were able to demonstrate was a combination of configuring the Hawk, you can actually use your Hawk for your advanced jet training in a lead in

fighter role and use your Gripen and replace their old aircraft with the Gripen in terms of a fighter aircraft and showed them the... well from an air force perspective we got the air force to buy into that concept. But Paddy Hine with Richard Charter we got the Ministry of Defence and ARMSCOR lined up with that very much as a result of Alex Roberts working with the Minister himself in understanding that. And once we got that, when they asked for information memorandums, it was in the context of that already having been defined through the Defence Review so we had already pre-positioned them in terms of what they might like. So, effectively what Alex Roberts had to get us to buy into was saying 'Don't go down a GEC approach, go into a much more general approach, get a much better definition of what is required and then try and win it through having the best product'. He says 'You have the best advanced jet trainer in the world, and you have just done a deal with Gripen, to put forward a fighter that is affordable, because they can't afford Eurofighter or Rafael and certainly not the F-16, so they cant afford those, this is a chance for Gripen. But nobody believe Gripen, I mean that nobody believed that Gripen had any chance, so when we responded with Hawk and Gripen, everyone was cynical about Gripen. It was only because suddenly the South African air force and the South African government were the ones who

started to fall in love with Gripen because of the Swedish connections and the Swedish ambassador... so what we started getting... not just the British ambassadors to lobby but we'd worked the same campaign with the Swedish ambassadors and the Swedish government to lobby, they'd never lobbied before, we had to prepare briefs for them. So we had them coming over. So we had two Prime Ministers coming in lobbying for our product, you know, the British Prime Minister, the Swedish Prime Minister, and they'd never lobbied, the Swedish Prime Minister before.

L JONSON: Did you have any members of SAAB on your marketing team?

A MCDONALD: No, we had a constant presence of two SAAB representatives down there supporting us all the time, but they were really just a negative influence, they were... everything was a disaster. Any upset in any of the plans they would report negatively so I then developed a dialogue of going to SAAB every three months and meeting the board and briefing them of where things were and they became very comfortable with me and they really gave us all the support we needed but I found that the Swedish guys were nice guys but negative, you know, it was more of an approach of let's see if we can catch the BAE... we had the full marketing responsibility under the agreement, there was no requirement to have them on board, but they wanted to be on board and I

eventually encouraged them to be on board working with Niall and Stuart just to.. especially industrial off set, could they offer a lot in industrial off set, which they could and they did and so they were proactive in that way but you know when you would have set backs, every week we would have a set back, something happened, we'd just bounce off that and off this and it would just go from the boss of SAAB to John Weston who was you know, in Military side to Kevin Smith and then I would have a request to SAAB they were all upset about this, you know, the more we shared with them, the more you know, you were distracted with trying to provide answers so eventually I kind of marginalised them out of the process but kept them onside by giving them regular briefings and I think, you know, I was at the end of it, exceptionally well regarded, I was treated with such great dignity every time I went to SAAB in the last year, every time I went up because I briefed them, I gave them more information than they had ever had before and they were aware at managing director level of the agency arrangements, they were aware.

L JONSON: At Managing Director level?

A MCDONALD: They were aware of who they were.

L JONSON: I was going to see, what was the split in terms of payment? I mean if an agent was to be paid 4% on the Gripen, I know that that didn't happen, but how would that be split? Was it

50/50 or 75/25?

A MCDONALD: Oh no, they picked up... it was in the price and BAE would get... I don't know this, you would have to check with Kevin, but I understood that they were picking up... the reason I shared it with them was because I understood they were picking up the whole thing.

L JONSON: Right so they would pay 100% of the Gripen's marketing costs?

A MCDONALD: Yes, all that British Aerospace got was a defined, under the marketing agreement, again I'm no expert on it, was we got a marketing fee for marketing the aeroplane, we would get our fee and they would have to pick up all costs including... but they said 'Look, you take off'... and say your marketing fee was 7%, I don't know what it was, but they would... and we had agreed 4%, they would pay us 11% so that it was us that took care of the agent, they did not want any responsibility for taking care of the agents. But whatever it was, they paid it off the price.

L JONSON: So you paid for Hawk and they paid for Gripen?

A MCDONALD: We paid for Hawk; they paid for Gripen, yes.

L JONSON: Okay.

G MURPHY: We're aware that the Hawk had competition from...

A MCDONALD: Alpha jet.

G MURPHY: Was it alpha jet?

A MCDONALD: Yes the French Alpha. An AT-2000 from the German's that they were considering promoting.

G MURPHY: Yes and I think the Italians had a...

A MCDONALD: The Italians had an aircraft. It was never

really given any credibility in evaluation, and the Czechs, they put two products in, two light trainers in.

G MURPHY: Right, yes, and I think at this time, I'm sure we have got a document here somewhere, I've just been looking and I can't lay my hands on it, but it was a comparison of prices I think that you were looking at, and the Hawk came out something like 50% more expensive than the... than any of the other competitors. I mean obviously that was quite a huge hurdle to get over?

A MCDONALD: Well not really, because you see none of them were lead in fighters. We had the only lead in fighter. We had the only one that could be used in a state of... you see the thing about the Hawk, it's a dual seater, they can convert... the pilot can fly as a single seater and you can use in a... so your really talking... we had no competition if... you have to look at it this way, and this is where this misrepresentation, you really have to go back and look at the air force evaluation. The air force said 'There is only one of these aircraft meets our requirement, that's Hawk'.

L JONSON: Did you see a copy of that evaluation?

A MCDONALD: Yes, yes, Aerospace have a copy of it somewhere, we have... Niall Irving, Patrick Hine, we saw the evaluation.

L JONSON: And its conclusions were...

A MCDONALD: That Hawk... Hawk was the only air craft, you see after having got... we already knew the answer because when we put together, when we assisted

the writing through DESO and air force, British Air Force, of what the requirement was, we wrote a requirement for an advanced jet trainer lead in fighter. Now, the Alpha jet was the nearest thing to that but it was out of production, out of production and so the French were offering all sorts of let them produce it, but they had not the lead in fighting capability that the Hawk had, which meant that if you were evaluating simply... as an advanced jet trainer we lost hands down to some of these aircraft, as an advanced jet trainer, in terms of the best advanced jet trainer, we won. But if you are saying, just in cost terms, if you had to go for a low cost solution in terms of an advanced jet trainer, the Hawk was not the selection. If you want to say 'No we want for our pilots the best advanced jet trainer available' bearing in mind we are bringing black pilots through who are then going to have to go onto fighter aircraft, what is then the best aircraft to make that jump? And when we started using black pilot dimensions, working with the air force, the specification they all responded to, only the Hawk could meet. Only the Hawk could meet the specification, so it didn't really matter what the price was at that stage, the air force were going to go with the Hawk. What the air force said, it was too pricey. They wanted the Hawk but it was too pricey and the message we got back was 'You are going to have to do

something in your pricing'. That was the message we got back after the down select, 'You are going to have to do something with your pricing'.

G MURPHY: Right. Were you ever aware that the South African air force were actually looking at the Aeromacchi as their preferred...

A MCDONALD: Never as a preferred, never as a preferred.

G MURPHY: No?

A MCDONALD: That's misrepresentation, whoever is saying that is misrepresenting the air force's perspective. Never happened and they did... there was a parliamentary review after, I mean only because I followed what has happened, but there was a parliamentary review which took place after the... which Thabo instigated of the Defence Procurement Process, and it was announced in Parliament, a full report was given, and it was announced in Parliament that the air force had selected the Hawk, not the Aeromacchi as has been mis... you see there was a number of very disenchanted ex-air force officers, who really had been marginalise by... you mentioned his name, the number two that took over as... Hechter is it? Hechter?

B SMITHWHITE: Yes.

A MCDONALD: Wilhelm Hechter got rid of a lot of disenchanted air force officers who became very critical of the selection process. A guy called Steyn was one, he was let go by the establishment, and a lot of them were very vocal in their criticism

of the selection of Hawk.

L JONSON: Sorry are you talking about Pierre Steyn?

A MCDONALD: Pierre Steyn.

L JONSON: But he was Secretary of Defence though wasn't he?

A MCDONALD: Yes but towards the end of the process, he was let go.

L JONSON: He was let go?

A MCDONALD: Well he was marginalised. He certainly... well he had a big argument with Joe, and Joe said to him that his whole approach and his prejudice against the British was... and he was no open minded in his approach, he then wrote, I know a long, because Richard Charter got a copy of it, a long explaining how he was impartial, which the Minister I think Fana had to write back on and said to him 'You are not impartial' so his credibility was greatly reduced, and I thought... I always believed... I never stayed round to see, but I thought that when we get down to the final contracting, that he had been let go by that stage. I don't know but I just thought he had.

L JONSON: Is it just your assumption that he had been let go or... ?

A MCDONALD: No, my assumption... my understanding of just general interest... I never tried... I mean if you said to me... I just used to read newspapers and go into the South African newspapers and anything that was printed I used to read. I never took an active... never kept in touch, never took an active... just general interest, it was

something which had been fairly important, and Pierre Steyn, well in fairness the last involvement we took with him he seemed pretty supportive of British Aerospace but that was after the down select, it was after the down select.

G MURPHY: Good place to stop there. The time by my watch is now 16:25. Time lapse counter 45, we'll stop the tape.

(End of Tape 6)

TRANSCRIPT OF INTERVIEW HELD AT TODS MURRAY LLP, SOLICITORS,
EDINBURGH QUAY, 133 FOUNTAINBRIDGE ROAD, EDINBURGH EH3 9AG ON
TUESDAY, 14TH AUGUST 2007.

CASE REFERENCE RLI02

TAPE 7 OF A BATCH OF 14

PERSON BEING INTERVIEWED: MR ALLAN MCDONALD

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MR PETER PATERSON	-	SOLICITOR

B SMITHWHITE: This is the start of tape seven of the
Section 2 interview with Mr McDonald. The time
by my watch is 16.37. Please can you confirm,
Mr McDonald, that we have not discussed
any matters relating to this case during the
interval since the end of the last tape?

A MCDONALD: Yes, we have not discussed any matters during
the interval. And we're all still present.

B SMITHWHITE: Thank you.

G MURPHY: Okay. I'd like to move on to a topic on its own
which is not depicted in the documentation that
we've given you, but it's, it's really I want to
look at marketing, BAE marketing -

RLI292

Corrected Transcript

A MCDONALD: Mm-hmm.

G MURPHY: - and the structure of, of marketing. Now we know it was split into the five regions and that was an idea that you brought, but we're really trying to get an understanding of who was in marketing, how it was structured, how it operated and how it interfaced with HQMS, HQ Marketing Services which was, Hugh Dickinson headed that up and then latterly Julia Aldridge although that might not have been in your time.

A MCDONALD: Mm-hmm.

G MURPHY: So, can we start really just by you giving us an understanding of the structure of marketing?

A MCDONALD: Well, we divided the world into five regions and we appointed, effectively we wanted to put into those five regions five managing directors who carried clout, in other words, would be good at pushing the marketing process forward but also would carry their weight with the managing directors of the businesses who, up until that time, really ruled the roost. And the five managing directors we appointed, we appointed Alan Garwood who is currently head of DESO -

G MURPHY: Yes.

A MCDONALD: - he was one of them. He covered the European scene. We appointed Robin Southwell as Head of Australia because there was a particular campaign we were running in Australia. We appointed Jerry Wooding who was in charge of Middle East activities. I was in

charge of Asia and Africa, and the American, we had a, we had an American that was running; I can't recall who it was at the time, that was running America, that ran the American scene. But he really reported direct. And Mike Turner was put in as the main board director who had responsibility for marketing, and we all reported in to him.

L JONSON: Was that Group Marketing Director?

A MCDONALD: He was Group Marketing Director but he was also Chief Operating Officer of the company for the commercial aircraft business and -

L JONSON: Right.

A MCDONALD: - Airbus.

L JONSON: Okay.

A MCDONALD: But he also adopted this title as well. Because I had thought I was going down to do that role but he was given that role. And so, now, Hugh Dickinson's organisation was the execution arm of any agreements that had to be put in place regarding covert or overt consultants.

G MURPHY: Right. And how were, how was it identified that agreements had to be put in place? What was the process that -

A MCDONALD: Well, each, each, the managing director of each region had about, you know, I had a guy in Malaysia, I had a guy in Singapore, a guy in Philippines, you know, all, and a guy in Africa. So, they would come up with representations that they would need to influence matters, not just

by having their offices down there but someone who was going to do some political work for us on the ground, or, either overtly or covertly, and they would put forward a proposal which their managing director had to consider seriously, and only the managing director really could sponsor that person to the referrals committee. And they would put that - so, any agreement, there was no officer in the company other than a managing director, I don't know what it was before that but certainly in my time, only a managing director could sponsor an agent.

G MURPHY: Right.

A MCDONALD: And so the managing director would take it to the referrals committee.

G MURPHY: Before that though was there, there was a proposal form or something that -

A MCDONALD: We would, we would fill in the - see, for example, you'll see one you've got there, Andy Humphries proposed, was, I think it was Alex Roberts, he proposed Alex because Andy was working with Alex in Malaysia as well, he knew him well and he was a big fan of getting Alex formally engaged because we hadn't engaged Alex formally, we just had an understanding. But just so we're clear, Dick Evans, Charles Masefield, Mike Turner, everyone knew that Alex was working for us before we'd any formal agreement in place.

G MURPHY: Right.

A MCDONALD: So, it's -

G MURPHY: Yeah.

A MCDONALD: - just the way he wanted to handle that. But, normally the, one of the regional guys would propose it, his managing director would endorse it -

L JONSON: Mm-hmm.

A MCDONALD: - and his managing director personally had to take it to the committee and personally had to answer any questions -

G MURPHY: Right.

A MCDONALD: - relating to it.

G MURPHY: So, how did that work then, this committee that it had to be taken to? How often did they sit?

A MCDONALD: They would sit, they would sit, they would sit fairly regularly, you know. I would almost say once a month, but it didn't always happen once a month. As often as nearly once a month.

G MURPHY: Right.

A MCDONALD: Because there was continual renewals -

G MURPHY: Mm-hmm.

A MCDONALD: - of previous renewals to consider as well as new business to consider.

G MURPHY: Yeah.

A MCDONALD: And so it would be put, I would go - and we, all the four managing directors would attend but normally when you'd finished your business you disappeared because it wasn't encouraged you sit and listen to everybody else's business. I mean, there was a, it wasn't encouraged that the four managing directors would, but if you were

last on the agenda -

G MURPHY: You'd hear everybody else's.

A MCDONALD: - you'd hear everybody else's business, you see, so sometimes you'd - and they could have reversed the agenda.

G MURPHY: Yeah.

L JONSON: So, who would sit on a standard referrals committee?

A MCDONALD: Chaired by Mike Turner.

L JONSON: Mike Turner?

A MCDONALD: Chaired it, he chaired the meeting.

L JONSON: Okay.

A MCDONALD: So, one of the operating, chief operating officers of the company chaired the meeting.

L JONSON: Right. Sorry, I thought you said earlier it was Philip Riley.

A MCDONALD: No, no. It was chaired by Mike Turner.

L JONSON: Okay.

A MCDONALD: It was attended by Philip Riley who represented the legalist part of the regime, and George Rose -

L JONSON: Mm-hmm.

A MCDONALD: - represented the financial. So -

G MURPHY: Yeah.

A MCDONALD: And Hugh Dickinson was there, and Julia was normally there as the minute secretary.

L JONSON: Yeah.

G MURPHY: Right.

A MCDONALD: Hugh was there because, you know, it was never clear whether Hugh had an executive role at

that committee but he was there as an executive, you know.

G MURPHY: Mm-hmm.

L JONSON: Did he vote, do you know?

A MCDONALD: No.

L JONSON: He didn't vote.

A MCDONALD: He never, in fairness, that's a very good question. He never, he never articulated, in all my time he never articulated an opinion as to whether we should or should not do an agreement. He would sometimes comment about how difficult people were to deal with or something like that -

G MURPHY: Right.

A MCDONALD: - but never did he try and influence, in all his time, did he try and influence a decision as to whether someone should or should not receive the approval to be an agent for British Aerospace.

G MURPHY: Yeah.

A MCDONALD: And this was all commercial aircraft as well by the way. All -

G MURPHY: Across the board?

A MCDONALD: Across dynamics, even with joint-venture partners, if they were proposing this committee needed to know.

G MURPHY: Right.

A MCDONALD: So, this committee knew everything that was happening about who were the, who was putting themselves forward as a representative of British Aerospace either -

G MURPHY: Yeah.

A MCDONALD: - formally or informally or, you know, covert or, you know, non-covert.

G MURPHY: What's the difference between formally or informally?

A MCDONALD: Well, if someone was like, we'll say that I'm like a, the informal years that they would be there at a particular filling, so we might engage a defence conference review, someone to be there in his own capacity and report back to us in his capacity. He was there attending for his own company. But informal he was representing us, or he could attend such a meeting and say, no, formally I'm representing British Aerospace at this meeting.

G MURPHY: Right.

A MCDONALD: You know, so we -

G MURPHY: Okay.

A MCDONALD: - we, I mean, you have to understand that this was, even if you were engaging someone as a consultant, consultancy agreement went through this as well, it wasn't just, so we knew the broad band, it was, we used a number of, in fairness, we used a number of consultants to represent us or to do a review for us and this was all discussed at these committee meetings as well.

G MURPHY: Right, right.

A MCDONALD: So, there was a complete overview of the people that were trying to either represent British Aerospace covertly or overtly, or

informally or formally.

G MURPHY: Yeah.

A MCDONALD: You know, we'd get a complete picture in your region.

G MURPHY: Okay. So before, you've got the proposal, it's been sponsored, the proposal has been drawn up and you're ready to go to committee -

A MCDONALD: Yeah.

G MURPHY: - did anything else happen -

A MCDONALD: No, you went to -

G MURPHY: - before you went to the -

A MCDONALD: No.

G MURPHY: - committee? Was any other -

A MCDONALD: You submitted the form in advance.

L JONSON: Who to?

A MCDONALD: To Hugh's office.

L JONSON: Right.

A MCDONALD: Hugh's, and they would prepare copies, and then they would go to the committee meeting and it would be on the agenda and it would be discussed.

G MURPHY: Right.

A MCDONALD: So there was an agenda prepared. You didn't go, you didn't, you couldn't, it was very difficult to raise something at the committee meeting. It was very difficult to put a case, you had to put your case before in the form and people could phone you beforehand and ask you any questions. Philip Riley sometimes did and never George, never George, never asked a question outside of the meeting. But then Philip would phone up,

just a bit of background. He was quite good.

L JONSON: Philip, George and Mike Turner, were they the only members who, were they the only other members apart from the RMDs, or were other people -

A MCDONALD: No. They were the only other members. But Jerry Wooding tended to have a say in everything because he had been previously Head of Defence Marketing so, Jerry assumed the position of one of the authorities in the subject, you see.

L JONSON: Right.

A MCDONALD: It used to amuse me but I just -

G MURPHY: Did the RMDs, did you get a vote?

A MCDONALD: No.

G MURPHY: No. It was just those -

A MCDONALD: We never, we couldn't -

G MURPHY: Yeah.

A MCDONALD: - influence a decision.

L JONSON: But there's only three. There's only Mike Turner, Philip Riley and Rose.

A MCDONALD: There were the three.

G MURPHY: Yeah, yeah. Three people. Okay, so -

A MCDONALD: In effect, in effect, and so we're clear, it was really Mike that made the decision.

G MURPHY: Right.

A MCDONALD: Just so we're very clear about it, and I'm prepared to say that. It was really Mike that made the decision. George, if George was unhappy from a financial context, he wouldn't support the approval. If Philip was unhappy

from a legal perspective he wouldn't support the approval. But in terms of, so, if they were, if they were satisfied from a legal perspective -

L JONSON: Mm-hmm.

A MCDONALD: - or satisfied from a financial perspective, I don't think they ever took a broad view as to whether the agreement was a good thing or a bad thing.

L JONSON: So, it was, is it fair to say it's possible that if they, that Mike Turner could be the only person actively approving it and it would still go through?

A MCDONALD: Yes, if, if, well, it was very informal the way it worked in the sense that, so we're clear, is that you've got some heavyweights, you've got a heavyweight managing director recommending this.

L JONSON: Mm-hmm.

A MCDONALD: You've got a legal person who's been told to look at any irregularities from a legal and if he has no objection he really takes himself out of the scene.

L JONSON: Right.

A MCDONALD: You've got financial guy control look at the impact, the costs or whatever and if he's uncomfortable he has to say so, and as soon as either of those parties expressed an uncomfortableness at the meeting, Mike would not support it.

L JONSON: Right.

A MCDONALD: So, to be very clear about that.

G MURPHY: Right.

A MCDONALD: And I've seen occasions, never with me -

L JONSON: I was going to say, do you, do you ever remember occasions where a proposal was put forward and actually was not passed?

A MCDONALD: I would say that 50% of them were rejected. 50% was -

L JONSON: At the -

A MCDONALD: At these meetings, yes. 50%, go away and do your homework, you've not done it well enough.

L JONSON: And what would be the reasoning?

A MCDONALD: Because they hadn't articulated the value that was going to be generated or created from it.

L JONSON: Right.

A MCDONALD: I mean, you had to, I mean, you had to, the managing director had to, you had the form but the form was just a, kind of, pro-forma.

G MURPHY: Mm-hmm.

A MCDONALD: You've seen the form. The real, the real justification was the managing director having to articulate the value that was going to be brought.

G MURPHY: Yeah.

A MCDONALD: So, you know, and because some of them were fairly early on in their, I mean, Robin had never been in that role before. Alan Garwood had never been in that role before. So, I'd never been in that role before but I can't recall any time mine was ever rejected because I would tend to be more verbose than most about the need for it and had probably done my research as well as I could. But, yeah, I

think there was, yeah there was, I would say there was, in fact, I would say that there was a couple that I had to go back and just give them a bit more background. Just give them a bit more background, but not, I never had a rejection. I never had one rejected but there was rejections sometimes and told to go away and think again.

L JONSON: What, what -

A MCDONALD: In the Middle East, Jerry was finding it harder to get stuff through in the end but that's because there was so much a dynamic change going on in the Middle East, so many people wanted to be players. I mean, you had inputs from Jerry with Mike knowing something from Dick, you know, so, we're going to talk about this outside the meeting and all this, sort of, that. So, but that was a process.

G MURPHY: You mentioned Philip Riley would have, would have an eye on legal implications.

A MCDONALD: Yeah.

G MURPHY: What sort of legal issues would, would he be raising? What sort of things was he concentrating on at these meetings?

A MCDONALD: Well, it was our understanding that we couldn't propose anything that was technically unlawful, you know.

G MURPHY: In what way?

A MCDONALD: Breaking the law. I mean, as far as I'm concerned -

L JONSON: How?

A MCDONALD: By, by engaging government ministers -

L JONSON: Right.

G MURPHY: Mm-hmm.

A MCDONALD: - in the UK was, would have been a breach of the law which we couldn't propose that at a meeting. If you did you'd be thrown out.

G MURPHY: Mm-hmm.

A MCDONALD: But using an agent, if you were saying, but at that time, at my time, using an agent where it was assumed he was going to influence an overseas government minister was not seen as, as illegal, technically

L JONSON: When you say influence, you mean, financially?

A MCDONALD: Financially.

L JONSON: So, in your time the, the people on the referrals committee, particularly Riley who's responsible for the legal side, did not consider it to be illegal -

A MCDONALD: I can't -

L JONSON: - for an agent to pay money to a foreign public official?

A MCDONALD: I would say, I can't definitively say that that's how Philip would have viewed it. I can't say definitively that that's, but my perspective of the legal, because I'm giving a perspective of what I felt the legal party -

L JONSON: Mm-hmm.

A MCDONALD: - was doing, was to say, was to protect - we're company officials and the company has an obligation to protect us as much as it's, you know -

L JONSON: Mm-hmm.

A MCDONALD: - so, when I was proposing anything, but I'll be clear about it. Let me just, so there's no ambiguity, let's be clear, there's no ambiguity about this. When I proposed John Bredenkamp's organisation -

L JONSON: Mm-hmm.

A MCDONALD: - for 7% -

L JONSON: Mm-hmm.

A MCDONALD: - I proposed it on the basis that he would act on our behalf, he would act on our behalf. But I understood clearly from what he'd done previously and the way that Mike had positioned this that, if necessary, John Bredenkamp would, would influence positively a government official -

L JONSON: Mm-hmm.

A MCDONALD: - by financial benefit to improve our position.

L JONSON: Right.

A MCDONALD: I understood that -

L JONSON: Mm-hmm.

A MCDONALD: - when I made that recommendation.

L JONSON: Okay.

A MCDONALD: But I felt I had the control not to use it. But I understood, and as far as Philip Riley is concerned, he would have understood that as well and anybody who sat on that committee and said differently would be lying. But the law at that stage, international law, we believed we were not breaking international law at that stage. The law changed, as you're aware -

L JONSON: Well, we don't want to get into a dispute on it because there are, well, I don't want to get into a dispute on it. I could be here forever. But, as far as you're concerned, was it ever mentioned that a, for example, when you proposed John Bredekamp -

A MCDONALD: Yeah.

L JONSON: - it, was it ever spelt out candidly -

A MCDONALD: No.

L JONSON: - that this is -

A MCDONALD: No. One thing about Aerospace it never, ever, ever, ever -

L JONSON: Even at the highest -

A MCDONALD: Even at the highest level discussed - see, there was a blind faith, pick the right guy and let him take care of business and never discuss it with him.

L JONSON: Mm-hmm.

A MCDONALD: And if I ever tried to raise it I used to get slapped down. Because I would say, why are you paying this guy this money? Who is he going to influence? You know. Well, one time he flew President Mandela's daughter, she was ill, and he flew in his private jet and he's very well regarded by President Mandela. Does that mean he's going to pay money to President Mandela? That's not what I'm saying, that's not what I'm saying. Nobody would ever, nobody would ever discuss it. I mean, it was, it was amateurish.

G MURPHY: Mm-hmm.

A MCDONALD: Amateurish.

L JONSON: Mm-hmm.

G MURPHY: What sort of -

A MCDONALD: It was left to the gut feel of the senior executive as to whether his judgement was right or wrong.

G MURPHY: Yeah.

A MCDONALD: That's how, that's how basic it was.

G MURPHY: Did anybody ever carry out any, any work, any background checks, any looks to see what this individual was like, to see whether he would be a reputational risk for BAE to be linked with.

A MCDONALD: Well, yeah, anybody I proposed I did exactly that. Who he was, what he's done, what his career was, and I brought forward the fact that this guy had been in the Channel Four programme, but I was told, by the way, by Turner not to mention it and I still mentioned it at the meeting.

L JONSON: Okay. So, tell us a bit more about that.

A MCDONALD: When I was told, see Mike -

L JONSON: How did you find out about the, the programme?

A MCDONALD: Because I, as soon he, as soon as they mentioned the name I knew I'd heard, I knew as soon as I, the name, the name Bredenkamp -

G MURPHY: Yeah.

A MCDONALD: - so I went and did my research straightaway, you know.

G MURPHY: Mm-hmm.

A MCDONALD: I research these things, you see. I couldn't find much about yourself when I -

L JONSON: Sorry, just before, would it, was it standard for you, was it part of your job description to research -

A MCDONALD: No.

L JONSON: - the background of the people before you put them forward to the referrals committee?

A MCDONALD: Never, we never had a job description that went into that length of detail, but as a managing director recommending that part of a fee of a contract being paid to a third party not engaged in British Aerospace -

L JONSON: Mm-hmm.

A MCDONALD: - that some of the wealth would go to him -

L JONSON: Mm-hmm.

A MCDONALD: - you would expect it, as a professional, to understand why you wanted that to happen. And they, in Bredenkamp's case, I mean, it was the easiest thing, it was approved like that. I mean, Mike didn't want to go into the detail of Bredenkamp. I mean, Mike had dealt with him before, presumably Philip Riley had, I don't know if George has, but he was approved, you know, very easily.

G MURPHY: Yeah.

L JONSON: So, when did you have this conversation with Mike Turner about -

A MCDONALD: When he first introduced me to Bredenkamp. When he first introduced me. And then I went to see Bredenkamp, then I went back to see Mike. I told him I was very uncomfortable, I didn't see what value this guy was going to bring to the

project.

G MURPHY: Did you mention to him then as well about the Channel Four programme?

A MCDONALD: Well, I told him, I told him, I didn't mention specifically the Channel Four programme. I said, 'But this guy's got a terrible reputation. He's already seen as a gun-runner', I says. He laughed at me and says we're all gun-runners, Allan, you know, that would, you know, so. I mean, the truth of it, he says, you're in defence marketing now. You're in, you've left commercial behind you, you're in defence marketing. You're a gun-runner. You know, you're an arms sales dealer. I didn't feel very comfortable with that conversation. I mean, I was never comfortable, you know, in my position and I'll say to you, I'd five kids, they were all at private school, you know. The only way I could get the salary to justify was continue to work at headquarters of British Aerospace and to do this job. But, you know, the more I got into defence, the more I was on - I was a commercial aircraft man through and through, brought up as a commercial and then suddenly I was in there because I could - and then I started dealing with the people. It wasn't more the product, it was the people. It was like positively influencing Joe Modise to me was a great thing.

G MURPHY: Mm-hmm.

A MCDONALD: You know, just try steal them away from the pitfalls that they could walk into. So, I think, in telling the government you can contract for offset, you don't have to do it on a wish and a prayer. By the way, you were saying about the down-select earlier, just so I'm on to it, when the down-select was made a big play was put on what the industrial off-set package was. That carried as much weight as the technical selection of the air force -

G MURPHY: Yeah.

A MCDONALD: - and ours was way beyond anybody else's.

G MURPHY: Yeah.

A MCDONALD: I just wanted to get -

G MURPHY: Yeah.

L JONSON: Yeah.

A MCDONALD: - you know and the down-select -

G MURPHY: Something we'll probably pick up on tomorrow actually.

A MCDONALD: Yeah, yeah. So, I just wanted -

G MURPHY: We could see that's a big part.

A MCDONALD: That helped. I mean, it wasn't just air force but I just want, sorry, sorry.

L JONSON: Can we just go back to, you say -

G MURPHY: Yeah.

L JONSON: - you said Mike Turner asked you not to mention the programme to the committee.

A MCDONALD: No, he said, he said to me, it wasn't specific don't mention, he said, we don't need to go into John Bredenkamp's background, we all know. In

other words the committee all know. So, it was like, it was like, don't make a big issue of this, Allan. Don't make a big issue of it. So I didn't, I didn't.

G MURPHY: Okay.

A MCDONALD: But I made an issue of Bredenkamp later on.

L JONSON: Oh, yeah. Okay.

A MCDONALD: I mean I -

G MURPHY: Yes.

A MCDONALD: - continued to make an issue of Bredenkamp. I want to tell you, I'll tell you something else is that, I'll tell you and I'd have to ask Eileen the date because there was a Scotland-England game, a Scotland-England game on at Murrayfield and British Aerospace had corporate tickets but we had our own tickets and we got, and Eileen and I invited people round to the house afterwards for supper. Mike Turner was there, Dick Evans was there, Sid Gillibrand was there, and Bredenkamp arrived.

L JONSON: What, without being asked?

A MCDONALD: Without being asked. With Jules Pelissier. And Mike Turner had told him where we were going and they came around and they asked to see me in my garage and apologised to me for threatening me. Now, Sid Gillibrand, they know, the British Aerospace guys knew that that had taken place because I had taken exception. A year after he was engaged I was still querying as to why he was involved in the programme and he said, it was almost like a threat in this office

that, you know, you should understand a bit more about me as to, you know, what type of guy I am. Which I took as a threat, told Sid about it, told him I wasn't going to deal with people like that, you know, I'm not being threatened in this job. And he came to my house and apologised and said it would never happen again. And from that moment he was as nice as nines to me. Nice as nines to me. So, I'm just, I'm just giving you a bit of background as to -
Yeah.

G MURPHY:

A MCDONALD:

But you see, I felt that if you want, I mean I'm trying to, trying to read this as best I can, but I felt Bredenkamp was out of his depth in the South African environment, and so was Jules. I just felt they were out of their depth. It wasn't Zimbabwe, it wasn't the way you were doing things, they were just out of their depth. And they were given an ace card with Mike Turner, come along on this project. Because I think Mike, I'm not, I don't, I think Mike genuinely believed that we're going to have to do something in Africa because that's the way Africa operates because that was all his experience in Africa and I think he just wasn't up to speed with the dynamics of what was changing there. And it was a new country, it was, you know, something else was happening, something much different and I think if he'd been closer to the Foreign Office or to DESO and listened to

Sir Charles more, or the Foreign Office guys he'd have found out how different a country it was. And when I see the commissions that were paid I think there is wasted money, wasted money.

L JONSON: Yeah.

G MURPHY: Can I go back to the committee?

A MCDONALD: Yeah.

G MURPHY: How are we doing for time? Yeah. There, so the committee, they would look at, they would have in front of them when they were making their decisions the proposal forms?

A MCDONALD: Yeah.

G MURPHY: They would have the regional managing directors to question further?

A MCDONALD: Yes.

G MURPHY: Would they have anything else at their disposal to help them make the decision?

A MCDONALD: No.

G MURPHY: No. Okay.

A MCDONALD: Other than, other than Hugh had a complete record of the relationship, and some would ask what did we in such and such a time, how has that changed from previous years?

G MURPHY: So, previous relationships?

A MCDONALD: Or -

G MURPHY: Or on-going?

A MCDONALD: Changing company but same person. Just give us a bit of background.

G MURPHY: Okay.

A MCDONALD: Sometimes Philip or someone would ask a question

about how was that last year? What did it look like? How did they help us in previous campaigns? So, Hugh was always in a position to give an update -

G MURPHY: Okay.

A MCDONALD: - of the relationship.

G MURPHY: Okay. We'll come back to HQM in a moment. I just want to look at something that we've seen. Something that's called an ex-committee referral.

A MCDONALD: Yes.

G MURPHY: What, could you talk us through that? What, what's an ex-committee referral?

A MCDONALD: If something came up of dire necessity that we wanted done, like something, we realised that suddenly I bumped in to you at a meeting and I realised you were absolutely key -

G MURPHY: Yeah.

A MCDONALD: - to making something happen within the next 72 hours or something, talk to you about would you be prepared to represent the company? Yes, I would. Okay, I'll get back, I'll make a call and get back to you. You could ask for that to go through an ex-committee referral, get your form in and it was referred through the committee and each member of the committee would get a copy of it and phone in to Mike their view and the chairman would give you a response from the committee. Without -

G MURPHY: So without forming the committee?

A MCDONALD: Without forming the committee. That would take

place, but very exceptional. Very exceptional.

G MURPHY: Was it?

A MCDONALD: To my knowledge. I never did it. I never did it.

G MURPHY: Right.

A MCDONALD: Sometimes people would phone up Hugh and because Hugh hadn't raised it at the committee for the renewal, he'd missed it, it hadn't been on the schedule, people would phone up and Hugh would ask for ex-committee referral to renew the agreement. That happened quite a bit.

L JONSON: Right.

G MURPHY: Right. That's a renewal of a -

A MCDONALD: That would be a renewal where he'd -

G MURPHY: Yeah.

A MCDONALD: - forgot to put on the advanced schedule. He would, that happened a lot.

L JONSON: But the, the people that were, his approval was being sought are we talking about the same people?

A MCDONALD: Same people, all the time. All the time.

L JONSON: Right, okay. Because I think, I mean, I think we may come on to some of these later, but I've seen some ex-committee applications where people like Neils Peterson are signing off. Is that, have I got, I may have that wrong -

A MCDONALD: Well, Hugh reported to Neils.

L JONSON: But he would -

A MCDONALD: Hugh Dickinson, oh, by the way, quite right. You're quite right. Neils Peterson attended those meetings.

L JONSON: Right, okay.

G MURPHY: Okay.

A MCDONALD: Neils Peterson attended those meetings.

G MURPHY: And his capacity at the time?

A MCDONALD: Hugh Dickinson reported to him.

G MURPHY: Hugh Dickinson reported to him, yeah, okay.

L JONSON: And what about Charles Masefield?

A MCDONALD: Never. Never.

L JONSON: Okay.

A MCDONALD: Maybe before, maybe when he was at British Aerospace in his previous history, you know.

L JONSON: Sorry, God no, I didn't mean when he was at DESO. Sorry, my fault, no.

A MCDONALD: Well, I wasn't, I -

L JONSON: When was he, during, was he at BAE at all from '94 onwards?

A MCDONALD: No, no, no. He left the company, never came back. Left, and then it was only when the two companies were merged did he come back into the seat.

L JONSON: At GEC. And when was that?

A MCDONALD: That would be, well, the merger was announced when I was leaving, so it would become effect in 2000. So, he becomes Head of Marketing in about 2000.

L JONSON: It might have been the year, it might be after that. Sorry.

A MCDONALD: Yeah. Well, he would have been, I would be very surprised if he wasn't on the referrals committee.

L JONSON: If we was or he wasn't?
A MCDONALD: No, if he wasn't on -
L JONSON: Right.
A MCDONALD: - the referrals committee when he was
Head of Marketing for the whole company but I
wasn't around then so I can't comment.
L JONSON: Right, okay.
G MURPHY: Okay.
L JONSON: Sure.
G MURPHY: Okay.
A MCDONALD: But Neils Peterson, you're quite right, was at,
not a voting member. He never, when I say,
there was no such a thing as establish who voted
and who didn't vote, just so as to be clear, but
he was there with George. I knew there was a,
he was there with George, and I always
understood him to be there because
Hugh Dickinson reported to Neils.
L JONSON: Right. But, I mean, I think, as I say, his name
features on a couple of applications.
A MCDONALD: Yeah, I think that he would be recognised as
the, if you can't get Mike Turner's signature,
then it was delegated to Neils.
L JONSON: Right, okay.
G MURPHY: Right. Was, was an ex-committee referral seen
as a, as an easier option to get something
through? Rather than sitting in front of the
full committee?
A MCDONALD: No.
G MURPHY: No?
A MCDONALD: No. My knowledge of ex-committee referrals in

this context, I think, were about re-validation of another agreement. What someone would try and do was, someone would try and, some of the managing directors might try and get the agreement renewed without having to go through the committee.

G MURPHY: Mm-hmm.

A MCDONALD: Right? But there was a process that Hugh was supposed to identify. Well, in fairness to the managing directors, it was probably because Hugh's team didn't put it on the schedule. Slipped it up and the managing director thought it had happened. He'd get a call from this guy who he is trying to get to do this and he would try and get the ex-committee to get this done because it should have done, it should have been on the schedule, Hugh should have done it and those things used to go through pretty quickly. Now, but if anybody had any doubts as to whether they should be using that person they'd have said, no, no, we need to wait for the next committee. It would be, you know, I don't think, I don't think that people would try and use the system. I certainly would never use it, you know.

G MURPHY: Okay.

A MCDONALD: It was a serious committee. It was taken very, very seriously.

G MURPHY: Mm-hmm.

A MCDONALD: And I understood, I always understood that those minutes were audited by Neil Learner.

L JONSON: What, and did you ever see a copy of the minutes?

A MCDONALD: We would, we were given copies of what was agreed, from the, next meeting there would be a copy given to us and we all had to hand back our copies at the end of the meeting. So, what, say you had the meeting, then, say we're meeting a month from now, we'd get a minute of what we had discussed to date in front of us, what was agreed and it was all taken back and never, we were never allowed to hold copies of it. Very strict.

L JONSON: As far as you're aware, were minutes of any detailed discussions kept?

A MCDONALD: No. No. As little written as possible.

L JONSON: Right.

A MCDONALD: As little written as possible. I mean, you'd be -

L JONSON: Do you know why?

A MCDONALD: Well, it was just, I mean, it was just, this was a subject, see, I mean even today nobody in Aerospace will want to talk to you about this subject.

L JONSON: No, I'm sure.

A MCDONALD: No-one. I mean, not just -

L JONSON: You can see why we think it's suspicious.

A MCDONALD: - not just from an SFO perspective, I don't just mean that. Just the whole nature of this was always, you know, covert dealings, don't discuss it. Nobody talks about it.

L JONSON: I suppose one of the reasons that I'm quite

surprised that detailed minutes aren't kept are, say for example, a member of the committee who sat on the first occasion isn't available for the renewals, the meeting of renewal, so someone else has to come in to take his place.

A MCDONALD: That didn't happen. You didn't have substitutes.

L JONSON: So, there was no rolling membership of the committee?

A MCDONALD: No.

L JONSON: So -

A MCDONALD: You had to be there.

L JONSON: So, Riley had to be there?

A MCDONALD: Had to be -

L JONSON: Rose had to be there?

A MCDONALD: Had to be there.

L JONSON: So what happened if they were ill or something on the day?

A MCDONALD: The meeting was postponed. All had to be there. There was no way of avoiding that committee or them avoiding their responsibilities. So, you know, everyone had to stand up and be counted. This was, you know, this whole process, I'm a managing director, I'm going to stand up and be accountable that I made these recommendations, and I'm going to give you my reasons for doing so. Why they approved them, knowing what they did, they should stand up and be held accountable just like everybody else. I mean, you know, as whether there's any law been broken or not, I don't know but there was a process we

went through. We all thought we were behaving honestly and professionally, you see.

Now, why it's not talked about is because I think, when I was at commercial aircraft I didn't know what the law was, I never went and checked but I always understood it was illegal to bribe any government official. I always understood that in my head. Right?

G MURPHY: Mm-hmm.

A MCDONALD: It was only, it was only when I went to defence that I realised that if you used a third party you, British Aerospace are not responsible.

L JONSON: Who told you that?

A MCDONALD: Effectively that would be, that would be, that would be Philip Riley. Philip Riley would have, would say if we use a third party it's their responsibility, not ours.

L JONSON: Do you remember how many times you heard that?

A MCDONALD: Once.

L JONSON: Just once. Do you remember when?

A MCDONALD: Once, only once. It would be when I first, when we talked, my first presence at a referrals committee.

G MURPHY: How was that conveyed to you? Was it a verbal -

A MCDONALD: Yes. Verbal, verbal briefing to the managing directors. The first briefing. When we were all brought together the first time it would be briefed. It was his, what the roles, various roles, were and it was his role that - it wasn't as bluntly as I've just put it.

L JONSON: No, I'm, I'm sure that's right.

A MCDONALD: It was a bit more subtle. I mean, it was a bit more subtle. But the message you were left with was that, you know, you can't bribe a UK official under any circumstances either through an agent or directly. You just cannot do it.

L JONSON: The message that sometimes some people put forward is that defence companies will not bribe foreign public officials?

A MCDONALD: That's exactly what was British Aerospace's position.

L JONSON: But that doesn't appear to be...

A MCDONALD: No, we would never overtly, we would never -

L JONSON: Would just not tolerate - how, would you say it is an accurate statement that, would have been your time an accurate statement, for BAE to say that they would not tolerate bribery or corruption of a foreign public official?

A MCDONALD: In most cases, yes, and in Saudi, no.

L JONSON: Right. But what about, you've already just explained that Philip Riley, as far as Riley -

P PATERSON: Can I just clarify a point here? I think the distinction has to be made here. We're talking about direct payments from British Aerospace?

L JONSON: No, I'm not talking about direct. I'm just saying that the concept of bribery and corruption -

P PATERSON: Or knowing payments are being made?

L JONSON: Yeah.

P PATERSON: I think that, that's the distinction here.

L JONSON: Sorry. I'm, yeah.

A MCDONALD: Right. As far as Saudi Arabia was concerned, from my early involvement in Saudi Arabia it was always recognised that for those of us involved in the programme -

L JONSON: Mm-hmm.

A MCDONALD: - that payments were being made directly to peoples in government positions. From day one.

L JONSON: Mm-hmm.

A MCDONALD: And I go back, it was way, way back.

G MURPHY: Mm-hmm.

L JONSON: Mm-hmm.

A MCDONALD: Right? So, that was tolerated within -

L JONSON: Okay.

A MCDONALD: - British Aerospace and, to my knowledge, was aware of by the Ministry of Defence and all of the boys in DESO and I knew them well. We used to, if you imagine, there was a little clan. There was the full-time British Aerospace people plus the DESO out, that were full-time out there. People like Bob Bauldy[?] who was the head of the DESO operation at that stage. Scot's guy. You know, there was a frankness and -

L JONSON: Yeah.

A MCDONALD: - an understanding.

L JONSON: I can understand the Saudis are very, are different. I mean, much as we'd love to sit here and -

A MCDONALD: And it was Sharia law. No, but I'm just saying, I'm just saying. But the general view then outside of was that, the general view was that

we, British Aerospace, don't bribe government officials either directly or indirectly. That was the general view was at that time. We engage agents to take care of any issues we may have. That was the view.

G MURPHY: Right.

A MCDONALD: We engage agents to take care of any issues we have, and before the law changed but at the time the law was being considered for change, there was, there was reviews going on led by Philip Riley -

L JONSON: Mm-hmm.

A MCDONALD: - and correspondence between Dick and Mike Turner and Philip Riley as to what was acceptable and what wasn't acceptable. That was going on and I saw that correspondence. It was, it was brought to the referrals. We were allowed to read and comment on it about -

L JONSON: Can you explain what it was?

A MCDONALD: Well, the new legislation was coming into play but it was, we had probably about 18 months notification about it or even more, I can't recall the time-scale. But what was the, anyways, what was, under the new law, what was British Aerospace position. It was very clear that under the new law we would be breaking the law under the arrangements we operated at that time. So, even then they were changing the arrangements. At that time before the law changed to bring us in to play with what the new regulations were going to be.

L JONSON: Mm-hmm.

A MCDONALD: And it was Philip Riley's role, responsibility there to, to give as much protection to the company officials, officers of the company as possible under the letter of the law. And it was George Rose's responsibility to make sure that whatever was handled in a fiscal, accountable point of view professionally and auditable.

L JONSON: Mm-hmm.

A MCDONALD: It was Mike Turner's professional responsibility to ensure that the argument for engaging the person was well articulated, understood and necessary. That was the, kind of, various roles of the guys there. Neils Petersen was there to administrate it through Hugh Dickinson. That was the role. And it was up to us managing directors - and it was, I mean, it was a very misty, unclear, you know, environment. But, you know, we were out to win business.

G MURPHY: And at the same time people were being put in place and were being given agreements should they be needed to do whatever it was that was required?

A MCDONALD: Yeah. Should, should they be needed. I mean, there was no backing away from let's win the business.

G MURPHY: Yeah.

A MCDONALD: There was no backing away from let's win the business.

L JONSON: Can I just ask you a quick, I mean, I know it

sounds as if we love to go back to John Bredekamp, but you say that had you stayed you would, it would have come to a stage where you would have looked at your passive agents and said, no, they're just not bringing anything to the party -

G MURPHY: Yeah.

L JONSON: - at all. Now, if you're right, your hopes or, and thoughts are right, that no bribery took place, what is the point come this very late stage, just before the contract is about to be signed, of keeping John Bredekamp? What would be the point?

A MCDONALD: Well -

L JONSON: Because it's, it's, I'll tell you -

A MCDONALD: It's all smoke, it was all -

L JONSON: It was £40 million.

A MCDONALD: I mean, it's all smoke and mirrors. But, I mean, that's all, it was all smoke and mirrors. I left -

L JONSON: Mm-hmm.

A MCDONALD: - Kevin Smith takes over. Kevin gets involved in trying to persuade them, this is the right price, here's the industrial package, right?

L JONSON: Mm-hmm.

A MCDONALD: I'm gone from the scene.

L JONSON: You said Kevin, you mean Mike Turner?

A MCDONALD: No, Kevin Smith.

L JONSON: Yeah, you said he, he was persuading who?

A MCDONALD: No, no. He was, he was in negotiating with

Jay Naidoo -

L JONSON:

Yeah.

A MCDONALD:

Who was the leader.

G MURPHY:

Mm-hmm.

A MCDONALD:

Kevin was interfacing with Jay Naidoo, this is the right price. Here's what we can do industrial participation. Let's do the contract. Let's do it at these prices. Right? I'm out of the scene.

L JONSON:

Mm-hmm.

A MCDONALD:

I'm the only person that's challenged the viewpoints of these, the roles of these individuals. I'm the only person that's had the courage, the only person that knows the background to challenge it because I had interface with Turner, no-one else.

L JONSON:

Mm-hmm.

A MCDONALD:

Right? By that time Jules was an expert on the ground through the training that we gave him. Jules Pelissier.

L JONSON:

Mm-hmm.

A MCDONALD:

Knew everyone on the ground. For him to, it was easy for him to impress Kevin Smith about their role. That's what I see. Kevin knew nothing about the region, hadn't been, spent any time -

L JONSON:

But Mike Turner knew Bredenkamp from long back. I mean, he could have said presumably at any point up to that contract, this guy, I know that these guys have provided nothing actually in the end, and they haven't been needed to

bribe anyone lets just cut that-

A MCDONALD: Well remember, remember, I'm telling you that all during this Bredenkamp is going in telling Turner, here's what's going on. Watching us and stealing my thunder, if you like.

L JONSON: Mm-hmm.

A MCDONALD: And then Turner, "don't tell me to report; I've already had it from Bredenkamp". To me, I didn't worry. I mean, I was, I wasn't interested, I wasn't following a BAE career trying to impress Mike Turner. I was trying to win business and let business speak for itself and get my job. I wasn't playing politics.

L JONSON: Mm-hmm.

A MCDONALD: I wasn't undermining John Weston or playing any of those games. I was out there trying to deliver. So, if Bredenkamp wanted to go in and steal my thunder. Bredenkamp still had to face up to me, whatever he had to do he still had to face up to me. That's the way I saw it. I briefed Kevin like I briefed you.

L JONSON: Mm-hmm.

A MCDONALD: I didn't see a need for them, I don't see what value they bring, I don't see any need for them but Mike believes, and I said, I don't want to undermine Dick or Mike, but Mike believes that, that Jules Pelissier and John Bredenkamp on the one hand, and Nabil in the other, will have to come and play to help us close this deal. They may be right, they've been in it a lot longer than me. I mean, these guys 20 years doing

defence marketing.

G MURPHY:

Mm-hmm.

A MCDONALD:

I mean, these two boys have been, their lives, I mean, I'm a, I'm an amateur. So, and Kevin's new. So, I think Kevin went along and I think that, that Bredenkamp, I'll tell you what I believe, that Bredenkamp is the greatest marketeer in the world, he'll spin you anything. I don't know if you met him he's a very impressive individual. And, you know, he would, he would, I would think he would convince Mike that he did the whole bloody deal and that I wasn't necessary. It wouldn't surprise me if that's what he did with Mike Turner. And I think Mike's gullible enough to go on with it because Mike was internal British Aerospace, never stepping out to the real world, never realising what it was all about. Had done it in his early days.

You know, we talk about in our business, shell shock. Being on the front of marketing and pushing and selling, some people just lose their bottle. To my mind Mike Turner lost his bottle to sell a long time ago and was quite happy to hide behind the aprons of the corporation and pretend he was the great expert. I mean, he, when you look at his marketing success story, you know, his marketing success story, he bribed his way to his deals. Any deals that Turner did, as far as I'm concerned, he bribed his way to in a

sense that he did the Zimbabwe deal and that was a bought deal as far as I was concerned.

L JONSON: Mm-hmm.

A MCDONALD: The Botswana deal with the 146, you know, there was new guys, an investigation going on, he was so worried that his name would come up as having approved the commission payments because they thought that had gone directly to a government official, I don't whether it did, I don't know where you guys got to, but that was still going on. He got the guy that we had used, he sent him to Barbados to work in the commercial aircraft business so he was out of country so you guys couldn't investigate.

G MURPHY: What deal was that?

A MCDONALD: The Botswana -

G MURPHY: Botswana.

A MCDONALD: - 146 deal. So, Mike, to my mind, you know, had lost his bottle in terms of being able to do the deals and was quite happy, but he knew, he wanted me to believe he knows all the key people as he does. He knows all the key people, all the big agents. We haven't mentioned half of the agents, I mean, we've only mentioned a small number of agents at British Aerospace. Mike knows all the top people personally and sees them every time they come back into the UK. Goes out for lunch, goes for Christmas dinners with them, their wives, that's, he's kept the circle of friends pretending he's got an insight into the op but in terms of on the ground

reality of what's going on I don't think he has any idea. Any idea. And he knows that. I mean, Mike, Mike, if Mike was, if you were to ask Mike Turner, is Allan McDonald an admirer or a critic of yours, he would tell you I was a critic of Mike.

G MURPHY: The Botswana deal, you said, you know, you believed he bribed his way to success on that one.

A MCDONALD: I'm saying British Aerospace bribed his way and he approved the process.

G MURPHY: Right.

A MCDONALD: That was 146. They believed that they influenced the head of the airline to buy 146s when the airline was government owned.

G MURPHY: Right.

A MCDONALD: So, the significance is that was a direct payment to a government official. That was the problem.

G MURPHY: And do you know that that, that happened?

A MCDONALD: Well, no. I know, what I know was that afterwards when one of the guys from the police officers from Hong Kong, the British Foreign Office paid for him to come when he retired from there to go into Botswana to carry out an investigation of that, of that, of that one - is that Mike did everything in his power to get the guy who had been head of airline a job somewhere else and did the review as to ensure that the paperwork did not include his name, but it did. And I remember it was

either Philip Riley or George Rose standing up and saying the paperwork had to rest as it was, you know -

G MURPHY: Right.

A MCDONALD: - they couldn't change the paperwork. So -

G MURPHY: That -

L JONSON: This was an investigation by the Foreign Office?

A MCDONALD: By, no, no. The Botswana government felt there was something going on.

L JONSON: Mm-hmm.

A MCDONALD: The Foreign Office paid for, our Foreign Office, I believe, paid for a fraud officer who had been in Hong Kong to go to Botswana and paid for him to do the investigation. And I was in charge, I had just taken over Africa at this time.

G MURPHY: I was, I was just going to say when was this? '94?

A MCDONALD: The 146 deal had been done before that -

G MURPHY: Yeah, okay.

A MCDONALD: - so probably about two years done before that and I hadn't been involved in that, but I was involved in trying to, I was briefed about the whole issue and we've got to try and make sure, that he, I didn't know the guy. The next thing I know the guy that they were targeting had been given a job by British Aerospace out in Barbados working for an airline that we knew to keep him out of harm's way, if you like. His wife was ill so he had to come back and forward but they were trying to -

G MURPHY: Do you have the name of this -

A MCDONALD: No, I couldn't, I mean, I took little, I mean, I was so engrossed in so much I took little interest. But I'm just giving you that, and Bredenkamp, I believe, was involved in the Botswana -

L JONSON: Mm-hmm.

A MCDONALD: - arrangement as well. So...

G MURPHY: Okay. I think we'll stop it there. The time now is 23 minutes past five and we will stop the tape.

(End of Tape 7)

TRANSCRIPT OF INTERVIEW HELD AT TODS MURRAY LLP, SOLICITORS,
EDINBURGH QUAY, 133 FOUNTAINBRIDGE ROAD, EDINBURGH EH3 9AG ON
WEDNESDAY, 15TH AUGUST 2007.

CASE REFERENCE RLI02

TAPE 8 OF A BATCH OF 14

PERSON BEING INTERVIEWED: MR ALLAN MCDONALD

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MR PETER PATERSON	-	SOLICITOR

B SMITHWHITE: This interview is being tape-recorded. The time by my watch is 9.16 on the 15th August 2007. We are in Meeting Room 8 at Tods Murray, Edinburgh Quay, 133 Fountainbridge, Edinburgh, EH3 9AG. I am Brenda Smithwhite, investigator. I am assisting in the affairs of BAE Systems Plc and Red Diamond Trading. I am interviewing Mr Allan McDonald who's accompanied by his solicitor, Mr Paterson. I am going to ask them to, again, identify themselves by giving us their full names, addresses and dates of birth.

P PATERSON: My name is Peter Paterson. I am a partner in Tods Murray and we are at 133 Fountainbridge,

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Edinburgh and my date of birth 11th of October 1954.

- A MCDONALD: Allan McDonald. I reside at 29 Quai de Berge, Geneva, Switzerland and I was born on the 25th of November 1951.
- B SMITHWHITE: Also present are my colleagues, Gary Murphy and Lydia Jonson.
- G MURPHY: Gary Murphy, investigator with the Serious Fraud Office.
- L JONSON: Lydia Jonson, independent barrister, instructed by the Serious Fraud Office.
- B SMITHWHITE: Mr McDonald, during this interview you will be asked to provide information to assist in this investigation into suspected serious and complex fraud. You will be required to answer questions or furnish information under Section 2 of the Criminal Justice Act 1987. You may be prosecuted if, without reasonable excuse, you fail to comply with this requirement or if you knowingly or recklessly make a statement, which is false or misleading in a material particular. Any statement you make under this requirement may only be used in evidence against you in a prosecution for failing to answer questions or for giving false or misleading information. If you are prosecuted in respect of another offence then any statement you make in response to this requirement will not be used against you by that prosecution unless you, yourself, introduce it into the proceedings. Okay, this is day two of the interview and tape eight.

G MURPHY: Okay. Thanks, Brenda. Obviously, we covered a lot of ground yesterday, Mr McDonald, and I just wondered whether there - overnight there was anything that you'd thought of, that you wanted to clarify for us or anything that you wanted to elaborate on at this stage. We will give you a chance again at the end of the day-

A MCDONALD: Mm-hmm.

G MURPHY: -but, I just wondered if there was anything at this moment in time.

A MCDONALD: There was only really the one matter that's been haunting my conscience about what it said in the message, I could have conveyed wrongly. So, I just thought I'd take the opportunity to clarify if I may. When I said that that British Aerospace - when it had its legal representative at the referrals committee and all the briefings we ever had with the legal - the view was, within British Aerospace, was that, if you had need for a representative - first of all, that British Aerospace would never countenance in any country, in any country, paying commissions. And by that, I mean, financial monies to any government official. It was never British Aerospace's policy to countenance that in any direct payment. If British Aerospace did acknowledge you could use consultants and it was given a general definition of consultants and sometimes they were genuine consultants, like, they would have a strategic dimension to help you think through strategy. So, the consultant

term was a very wide definition and there was some very genuine consultants engaged with British Aerospace under the same mechanism, you know, so it was always confusing. But, if you ever decided you needed consultants for discreet activities, British Aerospace had a process that you could through the referrals committee and engage such consultants. But, all officers of the company - all officers of the company, were discouraged from ever asking those agents, why they wanted the money and where they directed it.

L JONSON: Why were they discouraged from asking?

A MCDONALD: Because the company did not want to know. The issue was-

L JONSON: Why do you think the company didn't want to know?

A MCDONALD: Because the company might have believed - you know, the company might have believed - well, let's say in my case, so, that I can be very honest about it.

L JONSON: Mm-hmm, sure.

A MCDONALD: When I was told that I had to engage people like Bredenkamp, for example, I believed that the company thought that we might have to use similar tactics to what, I believe, they used - I believe, they used in Bots - in the - Zimbabwe, to acquire the Hawks. Where, I believe, the view was that money exchanged hands between the agent and government representatives. That was the general

impression I had about the Zimbabwe contract and, I think, the impression may be we needed to do that in South Africa. I never saw the need for that process. But, when I resisted engaging these guys, particularly, because it's was going to have an impact on price the wisdom of the regime - the British Aerospace regime was, 'Well, we might need people who are going to have to do extraordinary things for us to win the business. But, don't ask the questions and don't ask them who they're dealing with. Don't ask those questions.' And I-

G MURPHY: So, they didn't want the answers.

A MCDONALD: They didn't want to know. They did not want to know.

G MURPHY: Yeah.

L JONSON: When you say - sorry who gave you those instructions within the company?

A MCDONALD: Well, the legal advisors, Philip Riley and his team would - you see, when there is correspondence within the company - I don't have the - but when the law was being planned for change where it talked about the position of the company in respect of these matters. And it was that the company if it employed consultants, agents and key - who had key regional influence - the words were very carefully chosen. You would not be required - no officer was to - was to go deeper and have definition of what the discreet influence was in the country. So, it was very clear that that was not expected.

G MURPHY: Who made that very clear?

A MCDONALD: That would be - that would be the - that would be the - certainly the legal representatives, Philip Riley. But, it was certainly - I mean the attitude from - certainly Dick and Mike was, 'We don't want to know. We don't want to know and you don't want to know.'

G MURPHY: Right.

A MCDONALD: Very much Mike Turner, Dick Evans, 'You do not want to know.' And, I think, it was very much - you see, it was like a blind faith issue. You had to pick someone who you thought might have influence, right. I mean, it sounds naive but this is to my mind what it was like, pick someone who you thought had serious influence, engage them as a consultant to the company, make the engagement a rewarding one potentially for them, if we get success, but don't go any deeper than that. I mean that's how to my mind is how it was expected to operate. Is that you think...

G MURPHY: Yes.

L JONSON: Yes.

A MCDONALD: I just wanted to - because Peter didn't want me to convey the wrong impression of what the legal officers were saying of the company.

G MURPHY: Yes.

A MCDONALD: The legal officers were saying of the company, you know, engage a consultant but don't go any deeper into what the consultant does or who he deals with.

G MURPHY: Yes. You said it was the legal officers, Philip Riley.

A MCDONALD: Yeah.

G MURPHY: How would they - how was this message conveyed to you?

A MCDONALD: Verbally.

L JONSON: How often, sorry?

A MCDONALD: Once. Once and once only. You are told once and you are never told again.

L JONSON: Do you remember when? I know it's obviously...

A MCDONALD: Well, I was told when I was first - when we set up the referrals committee under Mike Turner, I think, he was the new chairman of it because, I think, previously someone else had chaired. I can't recall. I don't know who chaired it before Mike.

G MURPHY: Mm-hmm.

L JONSON: Right.

A MCDONALD: But the general - the general briefing we were given by the financial, by George Rose and by Philip Riley about how we should conduct ourselves. All very professional, I mean, we would - you know, that's why to my mind we're sitting there as the people that are trying to win business against a very competitive world, international marketing field. And we're briefed then as to legally what's acceptable and financially what's acceptable, you know.

L JONSON: Mm-hmm.

A MCDONALD: And by the officers - two very senior officers of the company, chaired by the chief operating

officer of the company, who's also head of global marketing. So, made very clear. And then, you see, why I know this is that because when they told me to use these people I said, 'What are they going to do for us? Who do they know? What influence are they going to have in the deal?' And then, and I would want to know, it's not only who do they know, but why do they believe that that the - how do you call it - that relationship is going to influence a defence procurement process. Just tell me how that would work, you know, - you know, and it was like at the time - it was a clash of cultures about, what I consider, the very professional way of going about business, was them saying, 'You're a bit of an amateur at this, Allan. Your first time, trust us. Trust us.' What was interesting - what was interesting at first, when no one wanted to know, I mean, they didn't even want to spend any time in South Africa because nobody believed there was a deal doing - going down there.

G MURPHY: Mm-hmm.

A MCDONALD: And then suddenly when we created a complete change in the South African approach to business, where they are prepared to open it all up and have tenders and soon as tenders - you've all the divisions saying, 'Oh great, we've got a chance of a tending document and putting all of that in.' Suddenly, the whole attention changed and suddenly you were getting allies from all

over the quarter about who could help you with the deal.

G MURPHY: Yeah.

A MCDONALD: You know, but we had by that time-

G MURPHY: Going back to Philip Riley, making you aware of British Airways' view on-

A MCDONALD: British Aerospace.

G MURPHY: Sorry, British Aerospace. You said that that was conveyed to you at one of the committee meetings.

A MCDONALD: The inaugural referral meeting that I went to.

G MURPHY: The inaugural one.

A MCDONALD: The inaugural one that I went to.

G MURPHY: Yes.

A MCDONALD: The inaugural one, I think, it was the inaugural one that I went to, which was the first of all the new managing directors as well.

G MURPHY: Yes. Now, previously, yesterday you said that those - what happened at those meetings was minuted.

A MCDONALD: Yes. The actions were minuted.

G MURPHY: Yes.

A MCDONALD: What - sorry not the actions. The decisions were minuted.

G MURPHY: Okay.

A MCDONALD: Not minutes of what was said but the decisions were minuted.

G MURPHY: Just the decisions.

A MCDONALD: And then those decisions were then printed out and confirmed at the following meeting.

G MURPHY: Yeah. Why was it only the decisions that were

minuted? Do you have a view on that?

A MCDONALD: Well, British Aerospace tended not to minute meetings.

L JONSON: Do you know why?

A MCDONALD: Just because it's a culture within the company. The engineering, you'd need - because of the nature of the product, you'd have to have specialist minute takers.

L JONSON: But at a referral committee you are already discussing whether or not an appointment should be made or renewed etc. and bearing in mind this is an inaugural meeting and people are making pronouncements on what's financially acceptable and what's legally acceptable. Was any of this minuted?

A MCDONALD: None.

L JONSON: No.

A MCDONALD: What I would say is, that generally in British Aerospace as part of the culture, minutes of meetings - more like actions were taken. Decisions made and actions to be taken were minuted. Never the conversations like we are having. You'd never have a minute of any of this or so, that's very, very unusual at Aerospace to have a minute of the exchanges of views in any circumstance.

L JONSON: What about advice given by people?

A MCDONALD: Not minuted generally.

L JONSON: No.

A MCDONALD: Generally not minuted. Very much an engineering company that was concerned about what decisions

were to be made and what actions had to be taken. That's what was always recorded generally in minutes. And even board minutes were of that nature as well. If you go and look at the British Aerospace - even board meetings of the company, I mean, the operating board of the company tended-

L JONSON: Right.

A MCDONALD: It was - it wasn't a - and all I would say, if you said to me, even more so at the referral committee-

L JONAON: Right.

A MCDONALD: -the least written the better.

L JONSON: Why?

G MURPHY: Why was that?

A MCDONALD: Because, I think, it was a subject that people were generally uncomfortable with.

L JONSON: And why - sorry I know - why, generally, were people uncomfortable with?

A MCDONALD: Well, I think, generally people recognised that - first of all, let's - let's be real about the whole process. When a decision was made to use an agent, who you wanted to influence in any way, shape or form the decision, when you made that decision in your head as a representative of the company, you are to some extent recognising that the individual you have selected may have to go to the nth degree and nth degree may include paying financial rewards to anyone he considered relevant to winning the business, including a government official. When

you made the decision that this was the agent that you thought you might want to engage, who's got the breadth to do that...

L JONSON: Right.

A MCDONALD: You see that's the decision you've already made in your head, where you are recognising the breadth that he may go to. You recommend him to the committee, the committee then says, well and they are all thinking, do we think this guy's got the breadth to do all this, yes he does, but let's not ask any questions now you've assigned him, don't go any deeper, don't ask him what he's done with the money because we are just engaging him to be good at his job and to do whatever he has to do to win the business.

L JONSON: Do-

A MCDONALD: And that's - so, so when I said - when I put these forms forward and recommending these individuals, at the time, I had it clear in my head and from the recommendations - why I was told to engage for their previous experience.

[Siren goes off]

G MURPHY: That's the end of it?

P PATERSON: Yeah.

G MURPHY: Okay.

A MCDONALD: I was just - you had the - you had the - you had decided that the advice you were given, that you thought these people had the capability to go out on an arm.

L JONSON: Right.

G MURPHY: Mm-hmm.

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A MCDONALD: Go out on an arm beyond what you would really necessarily want yourself.

G MURPHY: Mm-hmm.

A MCDONALD: To secure the business. But having made that decision you are absolutely discouraged. Everyone in the company, from the Chief Executive down, was 'don't ask who they are dealing with and why and what they are doing.' 'Don't ask those questions.'

G MURPHY: Ultimately, why do you think British Aerospace didn't want to know the answers?

A MCDONALD: Well, I just think because they felt that on occasions in a very competitive world whether against the French, the Germans who are out doing the same. There are going to - someone's going to have to positively influence the result by methods other than competitive tendering, negotiated tendering by, you know, incentives, financial incentives to key - to key people. And sometimes that might mean government officials and, I think, that if anyone says differently they are just not being honest. I mean, I recognise that that's what we used representatives for, if necessary.

G MURPHY: Do you think that could be one of the reasons why there is so little actually written down?

A MCDONALD: Absolutely.

G MURPHY: It's the same reason.

A MCDONALD: I think, that the more said - the little said about this the better. The little more written writing the better. Because what the company

was struggling with is, 'how do we compete with the complete business winning process that is taking place by our competitors' who, bear in mind, in the South African event, two French officials from French companies will not go back in country or they'll be arrested and one German official went to jail.

G MURPHY: Mm-hmm.

A MCDONALD: So, you know British Aerospace devised, in my mind, a very sophisticated way but you might also say quite naïve in some regards because of the amount of monies involved. But, also a very sophisticated way of dealing with this issue. A): picking people external to government with potentially great influence in the business winning process, winning them, taking them on as consultants, making it highly rewarding to them to make sure that the company got a positive result and then saying, 'Now, we don't want to know what you do. Go and help us in any way you can.'

G MURPHY: Mm-hmm.

A MCDONALD: It was difficult for me in that process because I was trying to organise a proper winning defence - winning process and the last thing I wanted was someone going in and upsetting the applecart by offering any government minister or any government official a bribe. That's the last thing I wanted. Because if that come out we'd have been disbarred from the process of competitive tendering and that's why I managed

these guys very tightly.

G MURPHY: You said BA put in a very sophisticated process.

A MCDONALD: Yes.

G MURPHY: Who, ultimately, was responsible for that sophisticated process?

A MCDONALD: Well, very clearly, very clearly the Chief Executive of the company because he's a Chief Executive. It was the Chief Executive.

G MURPHY: Being?

A MCDONALD: At that time Dick Evans.

G MURPHY: Yeah.

A MCDONALD: Mike Turner because he controlled the referrals committee. And the sophisticated process of engaging people of the calibre of people like Hugh Dickinson, and I don't know if you have met Hugh - I don't know if you have met Hugh Dickinson but Hugh is a highly capable individual and very, very secretive.

L JONSON: Mm-hmm.

A MCDONALD: I mean almost agent like.

G MURPHY: Okay.

A MCDONALD: Yeah, so, the office in Geneva, you know, all the documents - you see as far as I'm aware - I never went to the office in Geneva. I just knew it was there. I couldn't tell you where in Geneva the office is. I just know that Hugh went to Geneva and from things he said it was next to the Lloyds' office. But I always understood that the financial management of it was done through one process-

G MURPHY: Financial management of?

A MCDONALD: Of the payments-

G MURPHY: Yes.

A MCDONALD: -was managed through one country process and the legal aspects were done in Switzerland, quite separate. The things never came together. I also understood and this is one-

G MURPHY: Why did you believe that, what was the purpose of that in your view?

A MCDONALD: I think, the purpose of that was to represent that these - that this process needed to be discreetly managed because of the - because, first of all, the representatives themselves wanted discreetness. They did not want to be known as having consultancy, that's why many of them were covert. They did not want people to know that they were actively assisting British Aerospace.

G MURPHY: Why was that? That has always struck me as being strange, that.

A MCDONALD: Well, because these - these guys were the next to do a deal with another country. I mean these people were not like - had no loyalty to British Aerospace. I mean wherever - wherever they could make a buck, they'd make a buck. And so, to be known as having and been a representative of one particular country - company would constrain your capacity to operate on the next deal.

G MURPHY: Mm-hmm.

A MCDONALD: I mean, they were - I mean none of them - none of them have loyalty to - none of them - this is

difficult to say because a lot of the consultants we used, on a proper consultancy basis, were very much pro BAE but those are not the type of consultants I'm discussing now. These are the agents - the ones that were prepared to do anything to secure the business.

G MURPHY: Yeah.

A MCDONALD: Were the ones that were prepared to dump you and move on to a new customer next time round.

G MURPHY: Yeah.

A MCDONALD: And that happened regularly. I mean, these people - I mean, for example, John Bredenkamp and Jules Pelissier represented Shorts of Belfast. I don't think they ever represented GEC but I know they represented Shorts of Belfast at one stage in their business life.

G MURPHY: Mm-hmm.

A MCDONALD: So, there was no exclusive arrangement with them. And they really, I don't think, wanted people to know that - I mean, you could be talking to them on one project and they're working for another company in the country that you're operating in on another project.

G MURPHY: Yeah.

L JONSON: Do you think the converse might be true as well, that do you think the fact that that these agents - the identities of the agents were kept so secretive might also have assisted the company in that - do you think the company would have wanted to have been known to have been associated with-

A MCDONALD: No, I agree with you. I agree. I don't think - I think that the company did not generally want to be known to be associating with - some of them had great reputations as individuals and some of the other parties had bad reputations, you know, poor reputations. You know, so, I think, there would never be any acknowledgement - open acknowledgement that these were the type of individuals that were engaged with the company because, you know - for example, in the current environment, who would want to a friend of Robert Mugabe, right. But for a long time John Bredenkamp and Jules Pelissier were. I don't know if they still are, but were.

G MURPHY: Mm-hmm.

A MCDONALD: I'm just - and so there's - and BAE, therefore, would not wish to be associated with but they sold Hawk down there and for a number of years continue to supply spares for the Hawk. The morality of defence - the defence business is something as an individual, even in a company; you wrestle with all the time. The morality of what you do.

G MURPHY: Yeah.

A MCDONALD: Now, I was a commercial aircraftman.

L JONSON: Mm-hmm.

A MCDONALD: That was chasing a career in a big company that eventually became mainly a defence company.

L JONSON: I mean were you surprised when you left - when you, you know, this was your first time in defence, at the different - what appears to be

different types of practices.

A MCDONALD:

Amazed. I was amazed at the naivety of the process. That so much was dependent on one or two individuals. That it was so secretive. That all the - you can imagine, all the normal business you did, which was enormous, to put your bids together, your quotes together. And in a commercial aircraft, that's all that mattered. How professional you were at putting your bids in and winning your bids and doing your mapping process. That all seemed to be very quickly discounted in Aerospace on the reliance of one or two individuals who didn't even work within the company. That whole process shocked me. Shocked me, it did. I was digging deeper. I would dig deeper than most-
Mm-hmm.

L JONSON:

A MCDONALD:

-because I was uncomfortable with it. But you can see the whole way I approached the marketing, laying it out and trying to introduce the mapping process as we did, was trying to bring the commercial sophisticated way. So we were criticized, you can imagine, commercial was making no money. I mean, nobody was in commercial aircraft. There was parts of the businesses like Airbus was maybe making a good, small, small good margin but not great margin in the corporate aircraft. But the rest of the commercial aircraft it was all about a 10-year plan of getting out of that business. Because if you announced immediate withdrawal all those

leases that I talked about that you were giving financial backup would have come real and the liabilities would have come real and that could have brought down the company. So, you had to have a 10-year exit strategy, 10-15, which is what - so here's me, when I came through on an apprenticeship then you get into the machinations of the company you find that the industry you are working in they are exiting from, over 10 years, you see. And I'd helped them make that ultimate decision, as the correct decision to make. So, I'm not saying that I wasn't party to that process. I was at the end and I was to its execution in the number of redundancies. We took that down I stayed in commercial aircraft where we scaled it down from 70,000 people to 35,000 people. I was part of that process. I knew we were scaling a business down. I knew roughly we were reduced to only a few 1,000 people, I knew that. Then you go to the military side of the business and the military side of the business is on a set-up structure. When you are dealing with the Ministry of Defence, when you are dealing with the US government, very strict parameters all proper governance, all put in a box. Then you go to the international marketing arena and whatever it takes - whatever it takes to win business seemed to be the modus operandi. You know, you struggle coming to terms with that because then you realise that if you don't

engage the methods of whatever it takes, you'll lose the business because other parties will. Others parties will.

G MURPHY: I just want to go back to the fact that, you know, the questions weren't asked of the agents, what are you going to do with the money? How are you going to achieve this, if it comes to it? You said that there was this sophisticated process put in place, all of these sorts of things, not a lot written down. Ultimately, what were BAE worried about? Why did they adopt that sort of - those sort of practices? What was in the back of their mind whilst all this was going on?

A MCDONALD: I can't -I mean I don't know. I mean this was such a - this was such, we say BAE - this was such a discreetly managed activity.

G MURPHY: Yeah, okay let's say what was in the - you say it was Dick Evans and Mike Turner that-

A MCDONALD: I think the senior officers of the company even before Dick and Mike, in fairness to them. Not just Dick and Mike.

G MURPHY: No, okay.

A MCDONALD: Senior officers that went before them as well.

G MURPHY: What was the whole reason for doing all of that?

A MCDONALD: Well, I think it was - I think there was - there was the managing the conflict that in a number of these countries where you traded, the offering of commissions was a legitimate process in, for example, Sharia law. It was a legitimate process. In Malaysia, a legitimate

process. In Indonesia, a legitimate process. In those particular countries where you would never do a transaction without whoever assisted in bringing the parties together, facilitating the deal did not financially benefit out of it. So, I think, what the company recognises is that if you want to trade in that - in that environment you have to make the ability to pay these commissions available to these parties. On the other hand they recognise that under the western ways of operating, and if you looked at your rules and regulations of operating under Ministry of Defence UK, US Air Force or US Ministry of Defence, these commissions were just not acceptable - not legal. And so, what the company decided to do is, we need to come up with an arrangement where we can live with this requirement in these countries to make this happen, but let's not have a public profile about it.

G MURPHY: Right.

A MCDONALD: Let's have a most discreet process about we are going to have to comply. When in Rome do as the Romans do but let's not tell everyone that that's the way we do it. And, I think to my mind, that's the best way to try and summarise unless-

G MURPHY: Because they thought it might not be-

A MCDONALD: Because they thought the - because they thought the disclosure of it in the western context would not be good - seen as good corporate

governance or good corporate practice within the
- within the - just, let's just-

G MURPHY: Within the law?

A MCDONALD: No, I think - I think, I believe and this is my
view. So, I believe, that at all times BAE
believed it was operating within the law but, I
believe, that the practice that I've described
would never be seen as good professional
business process.

L JONSON: What makes you think - how do you - how are you
able to say that you think that the company
thought it was operating within the law?

A MCDONALD: Well, for example, I know that there was reviews
carried out in the company in my younger days.
I just knew, for example, you may recall when
Lockheed bribed the Japanese Prime Minister.

L JONSON: Mm-hmm.

A MCDONALD: And they also bribed the, I think, it was one of
the - one of the - it was one of the princes. I
think it was in Holland.

L JONSON: Right.

A MCDONALD: Government - royal families - one of the royal
families - they were bribed.

P PATERSON: It was Prince Bernard. The husband of the
Queen.

A MCDONALD: Yeah, the husband of the Queen Prince Bernard.
Now, this was Lockheed when it was trying to
move its Tristar aircraft, which is commercial
aircraft, as opposed to competing with Airbus
and competing with McDonnell Douglas at those
times because I was in commercial aircraft in

those days. There were guidelines put out by the company about what was good practice. And if you go into the company's operating manuals and procedures manuals and indeed, if I'm not mistaken, if you get hold of the IMSO - operating manual there is - in the company's operating - it covers, which Philip Riley helped write by the way. He - if you go into those manuals, I don't have them now, but it was a code of conduct.

L JONSON: When was that written? Do you know?

A MCDONALD: Well, it was continuously updated. I mean it has been written for years but it was certainly updated when we started IMSO.

L JONSON: Right.

A MCDONALD: Neils Petersen.

L JONSON: So, 1994.

A MCDONALD: Yes, it was continuously updated. So, if you go there, it gives you a code of practice about what was acceptable and what wasn't acceptable and even in the engagement of agents.

L JONSON: Does it give you legal guidance as to what was within the law?

A MCDONALD: No, it gives you guidance as to what is acceptable within the company and the company was - and the inference being the company is operating within the law.

L JONSON: Right.

A MCDONALD: So, always the inference was, follow these procedures you are following good corporate governance and good corporate governance

complies with all aspects of financial, legal. So, the corporate governance - this was the corporate governance manual, this is how you should conduct yourself.

L JONSON: And what did the corporate government manual say about the onward payment of monies to foreign public officials?

A MCDONALD: Unacceptable.

L JONSON: So, even though - is it fair to say that even though the company's own policy, which was assisted in its drafting by Riley, was saying it's unacceptable, when the referrals committee met in that inaugural meeting, the view that was really passed on was, 'well just don't ask.'

A MCDONALD: From Philip Riley's perspective, just to be fair to Philip Riley. Philip Riley's perspective was he'd never say don't ask that would be more the advice you'd get from the operators, like people who have had experience in the business like, Mike Turner. What Philip Riley would say is that if you engage these agents to go about a plan of business winning, right. That's as far as your remit should go. That's as far as your remit should go, just engage them and make sure that that engagement is a legal engagement from our perspective. But, what actions they take is not for the business of the company that's - I mean, he would - he would not be - you always got this - you always - the financial guy and the legal guy were very wary in terms of the language they'd use. They'd be much more

precise, you know, it's like if you were asked to give the advice but didn't want to convey any wrong message, you would be able to convey that in a form of language. So, the form of language that both the legal and the financial individual gave, to my mind, would have kept within the line. The person - the real people that knew what that meant and would have a conversation with you about what that meant, would be the chairman of the committee, in that case, Mike Turner. Or if you had to have that conversation ultimately with Dick but it was very seldom you ever engaged Dick in that discussion.

L JONSON: When you were told at that inaugural referrals committee meeting, basically, don't ask any further, who said - who said that?

A MCDONALD: That would be Mike Turner.

L JONSON: Right, okay. So, sorry I'm just [inaudible].

A MCDONALD: No, absolutely, but the legal people would say these agreements are just general agreements and, wide scope and people have a wide scope of activities but it's not - it's not part of our plan to have any further definition that's already in the agreement.

L JONSON: Sorry, Gary. Can I just ask-

G MURPHY: Yeah.

L JONSON: Just staying with Philip Riley a minute. Do you - you've said that you don't think the company thought it was illegal to bribe foreign public officials at that period. Do you know if it was written down anywhere?

A MCDONALD: No, no. And the reason I say that they don't - thought it was illegal, in certain countries it was legal. Under Sharia law, for example, if a US - if a - and I know this from a practical experience, if an officer in the Royal Saudi Air Force introduced two parties, which would result because of his - he was an officer in the Air Force but if he introduced two parties who would get a Ministry of Defence internal order.

L JONSON: Mm-hmm.

A MCDONALD: But nothing to do with the Air Force, under Sharia law he was entitled to his commission, up to 10%, I think was the figure in those days when I was in Saudi.

L JONSON: But-

A MCDONALD: So, he was entitled. So, he was a government official.

L JONSON: But that would still be illegal for somebody at BAE to do now, for example-

A MCDONALD: No, now-

L JONSON: Even if it was Sharia law, it's still illegal here.

A MCDONALD: Now, it's illegal here.

L JONSON: Now, that's the key. Is that why - where was it set out what the company thought was legal or otherwise in this country?

A MCDONALD: This is where I can't help you in a final answer to that.

L JONSON: Right.

A MCDONALD: But if I could just tell you before - when the law was being discussed for changes-

L JONSON: Mm-hmm.

A MCDONALD: -it was very clear that any involvement, any payment to any government representative anywhere in the world was now being recognised as illegal.

L JONSON: Right.

A MCDONALD: Right.

L JONSON: Mm-hmm.

A MCDONALD: British Aerospace had, there was an exchange at the highest level in the company and when I say at the highest level, Dick was copied. Mike Turner was in the correspondence. Philip Riley was probably generating it.

L JONSON: Were you in the -

A MCDONALD: The managing directors were all copied in it.

L JONSON: Right.

A MCDONALD: About commentary about how this was to be best to be managed and stay within the letter of the law. You know, this - So, the company through people like Philip Riley were trying to - trying to allow its marketing managers to be as competitive as possible, not lose business, but at the same time work within the confines of international law.

L JONSON: Right.

A MCDONALD: There was a massive effort on the part of the company and I need to emphasis that to you.

G MURPHY: Mm-hmm.

A MCDONALD: They did not walk away from these responsibilities. They wrestled with it. You said to me, they were not blindly saying let's

do this and let's do that. They would - when they realised on the one hand this is how the managers had to - this is what they had to do to win the business and on the other hand what was the law saying.

There was a healthy process going on of what was acceptable and what wasn't acceptable and eventually, I think, the conclusion reached and I wasn't there to see what the final - but I'm sure after I left - I would be absolutely positive after I left that the government's advice that was incorporated in the IMSO management would have changed. I'm abs - which would and if you look at what was there before verses what was there now or what was there just after that, you'd have seen the subtlety of how they managed it. I don't know how the outcome was but when I - about that time the dialogue was - there was seas of correspondence, you know. So, we were all party to try and-

G MURPHY: Mm-hmm.

A MCDONALD: We were all party, we were all managing directors, as to what - is there any smart, clever, you know - you know, what do they call it - was it - tax avoidance is against the..

P PATERSON: Evasion is the right avoidance.

A MCDONALD: Tax evasion one is against the law and one is within the law I don't.

P PATERSON: Avoidance is legal. Evasion is not.

A MCDONALD: Avoidance is legal. Evasion is not. I think they were trying to come up with that sort of

solution.

L JONSON: Mm-hmm.

A MCDONALD: Of how they could operate and still win business.

G MURPHY: Mm-hmm.

A MCDONALD: Really, winning business was critical.

G MURPHY: Ultimately, do you think, if they were trying to act, you know, within the law be competitive as possible, ultimately, if they were going to lose a deal because acting within the law was going to not enable them to win, do you think the message would have been 'win the deal?'

A MCDONALD: I think as soon as you engaged - as soon as the company engaged some of the types of people that we engaged as consultants, the company, not generally the company-

G MURPHY: Mm-hmm.

A MCDONALD: -but the absolute senior officers of the company who were engaged in that process of engaging those consultants, would have expected from those individuals for the fees that were being paid, to do what was absolutely necessary to help us win the business. Absolutely.

G MURPHY: Yeah.

A MCDONALD: No doubt.

G MURPHY: Whether that means stepping across the line and into illegal.

A MCDONALD: Not questioning what they did.

G MURPHY: Yeah.

A MCDONALD: Not wanting to go to where they went but whatever - I mean, I don't believe that we can

sit back and say, you know, that we naively expected - paying the sort of fees we were doing, that we didn't expect those people to go to the nth degree to win the business.

G MURPHY: Mm-hmm.

A MCDONALD: I mean, so, I don't think people should try and but the company would not know - the company would not know. You know, the company would not - I would say that what's ever happened in South Africa, the company does not know.

L JONSON: The company doesn't know who was bribed but the reality is people are getting, people like John Bredenkamp, were given 40 million.

A MCDONALD: Yeah.

L JONSON: Performing no palpable services.

A MCDONALD: Well, they wouldn't know they were getting 40 million at the time, in fairness to these guys, they would not know that they're getting 40 million.

L JONSON: Mike Turner would know.

A MCDONALD: No. They would know the value of the - they would know what the bids were. They would know the potential of 40 million was there.

L JONSON: Mm-hmm.

A MCDONALD: So, it was all based on success.

L JONSON: Sure.

A MCDONALD: You didn't, the British whose bid here.

L JONSON: Oh yes.

A MCDONALD: These guys had to perform and, I think, that generally what the Bredenkamp team did when I was there, was do whatever they could to help,

whatever they could to help and they would offer all sorts of stupid advice, in my opinion, to help which would have taken them down the wrong avenues. Right, so I managed - I probably engaged - I got probably more engaged with agents than anyone else at that time because I did not want the old culture clashing with what we were trying to establish as a new culture and I was very proud of - I mean, this was a whole - this was a whole British government, a British Aerospace effort.

I mean, there was a massive - this was involving Prime Ministers in helping win the business and talking about the offset programmes and giving them briefings on how that would be good for South Africa, you know, I mean - I mean, I met a number of ministers Trevor Manuel, you see - Alec Erwin. I could never believe in 100 years that these guys would be incentivised to win the business and they were - I just don't believe. I would not countenance - when you saw the types of individuals they were I would never countenance anyone even attempting to because, I think, the attempt itself would have blown us out of the water. Dealing - and so, what people should realise is, there was five ministers going to be involved in the recommendation to the cabinet. So, you'd have to get to the five of them and certainly from my perspective two or three of them, it would just be something you would never countenance even raising with them.

That would be my perspective. You would never countenance raising it with them.

G MURPHY: You said that you were very close to the agents and, I think, that's a good cue to start looking at the agent documentation. One final question though, you said that if anything untoward, monies being paid, financial inducements in South Africa, BA didn't know about it.

A MCDONALD: I would say they wouldn't know.

G MURPHY: Yeah.

A MCDONALD: They would have no knowledge of it.

G MURPHY: Would that be because of their policy of not wanting to know?

A MCDONALD: Yes.

G MURPHY: Okay. Lydia is there anything that you just want to clarify?

L JONSON: No, no not at the moment. Let's move onto-

G MURPHY: Okay. Alright, I'd like to just look at Richard Charter for a moment and Osprey, his covert vehicle. If we could turn to page 100 in your bundle.

A MCDONALD: Yeah.

G MURPHY: And that's DOCMAN reference 009571000139. If we go to, I think, it's the third page, page 102 in the bundle. We can see that there are some percentage rates, 1% plus 3.5% for Gripen Aircraft. Who actually decided what the percentages were going to be for these individual agents?

A MCDONALD: Well, I inherited - whatever agreements, I inherited an agreement, from Richard. I

inherited an agreement from Bredenkamp. I inherited an agreement from Basil Hersov - those - I don't know who would have - I could have a guess who the people were but I don't know who would have put those arrangements in place with those individuals.

G MURPHY: Right.

A MCDONALD: But all the other - all the other levels of commission, other than those parties, and we can go through them, I would have decided.

G MURPHY: Okay. In this particular document, this is a proposal for the appointment of Osprey, I think.

A MCDONALD: Yes. I proposed that.

G MURPHY: Yeah.

P PATERSON: Can I just interrupt? You said covert, I think, Osprey was overt, was it not?

G MURPHY: It was overt, did I say covert? I meant overt.

A MCDONALD: Well, in actual fact, you see, but in actual fact this page three and six covers overt and covert.

G MURPHY: Page three.

A MCDONALD: Page 102, page three.

G MURPHY: Yes.

A MCDONALD: I can see why when you said covert; I understood why you said covert because...

L JONSON: Is that the 3.5%?

A MCDONALD: Yes.

G MURPHY: Oh.

L JONSON: Ah.

G MURPHY: Right.

L JONSON: I was wondering what that was.

G MURPHY: 1% for overt and 3.5 for covert.

A MCDONALD: So.

G MURPHY: Okay.

A MCDONALD: But Osprey was never publicly - this is an internal document-

G MURPHY: Yeah.

A MCDONALD: -so you are summarising what was being done here.

G MURPHY: I understand.

A MCDONALD: But Peter's right. Osprey was the overt arm but they - but this document you are getting a summary of what was covered, overt and covert.

G MURPHY: Okay. Now, this particular document on page 105 shows that you proposed it, signed it in November 1995.

A MCDONALD: Yeah.

G MURPHY: From what you've said, does that mean that the percentages that are on page 102 were already set and there was no negotiation that you had to take part-

A MCDONALD: No. I had just adopted what Richard had previously agreed. What I would have done in the Gripen, I would have engaged the Gripen amounts I would have - I would have - these are Gripen aircraft, that's all Gripen.

G MURPHY: Yeah.

A MCDONALD: I would have agreed that - not anyone else. Anything to do with Gripen I agreed.

G MURPHY: Right.

L JONSON: So, how did you come to that figure?

A MCDONALD: Well, based on what he had on the Hawk.

L JONSON: Right.

A MCDONALD: It was - I was - you see I'm only a year in the job.

G MURPHY: Yeah.

A MCDONALD: Just understand - the one thing I understood very quickly was we were two years away from having to come up with a final price, right. But there was no - there was no - how would you describe it - there was no energy in the system, no dynamics in South Africa that there was ever even going to be an opportunity to put a bid in. So, the last thing I was going to do at this period was to haggle over percentages. The last thing I was going to do. To me it was about: if I had to engage these people let's get them engaged, let's get them active, trying to create the proper environment, so we can put a tender in.

G MURPHY: Mm-hmm.

A MCDONALD: So in these 1994/1995/1996 period not a lot of time or attention did I spend on what the levels of percentages were.

G MURPHY: That was going to come later was it?

A MCDONALD: It would have to come down because I was told by Dick and Mike, you know, 'We'll get down to the right price when we have to when there's a need to get down. So, don't create a problem now-

G MURPHY: Yeah.

A MCDONALD: -when there's no need.' And you can imagine the psychology - these guys thinking, we are going to get 4.5% of a 600 million - a \$600 million

deal, you know. So, the energy that poured in to help us get there was enormous and every year you came and disappointed them by taking something away. I mean, I think when I started off - when I left, when I left - when I started the process, I think, the summary of the incentives were 25% and I think I handed over to Kevin it was 17%.

G MURPHY: Right.

A MCDONALD: And I think when I handed over we got it down to 17.

G MURPHY: It was already on its way down then.

A MCDONALD: Well, I brought it down because I could take you through the process and then I think Kevin from what I see from the documents you presented, then took it down to 12%.

G MURPHY: Right.

A MCDONALD: So, we moved from 25 to 17 and it seems that 12% was incorporated in the final price.

G MURPHY: Okay. I have to stop you there. Okay, the time is 10.01. Time elapse counter showing 45. We will stop the tape.

(End of Tape 8)

TRANSCRIPT OF INTERVIEW HELD AT TODS MURRAY LLP, SOLICITORS,
EDINBURGH QUAY, 133 FOUNTAINBRIDGE ROAD, EDINBURGH EH3 9AG ON
WEDNESDAY, 15TH AUGUST 2007.

CASE REFERENCE RLI02

TAPE 9 OF A BATCH OF 14

PERSON BEING INTERVIEWED: MR ALLAN MCDONALD

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MR PETER PATERSON	-	SOLICITOR

B SMITHWHITE: This is the start of tape 9 of the Section 2
interview with Mr McDonald. The time by my
watch is 10.08am. Please can you confirm,
Mr McDonald, that we have not discussed any
matters relating to this case during the
interval, since the end of the previous tape.

A MCDONALD: I can confirm that that is the case.

B SMITHWHITE: Thank you.

G MURPHY: We were talking about Richard Charter and
Osprey. I would like to talk about the payment
structure. Now, I appreciate that you weren't
there after January/February 1999, but do you
know anything about the company, Red Diamond?

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Corrected Transcript

A MCDONALD: No.

G MURPHY: Red Diamond Trading?

A MCDONALD: No. I now know from general press that that obviously was the vehicle that the company used but I was never familiar or never heard the term Red Diamond in all my time at British Aerospace.

L JONSON: Did you know if a separate company was contracting, rather than BAE?

A MCDONALD: No, no. I just knew that those arrangements were managed by Hugh Dickinson and he had separate vehicles established for doing so and if you, I always assumed that the company in Switzerland was a separate company. I just assumed that but had no knowledge of that, I just assumed that they set up a separate company to manage this discreetly. If you can imagine the reporting structure, Hugh Dickinson went into Neils Petersen and Neils Petersen dealt with financial and all that side of it. It was Philip Riley giving legal advice for him but the managing directors were never exposed. It was the way of a good corporate governance, we make the recommendations but we have no influence over its execution or the payments or whatever. We just make the recommendation and these people have a separate process of managing it.

G MURPHY: Right. Did you know Osprey as a company and Huderfield being the covert?

A MCDONALD: I never knew Huderfield, it was Kevan at my time.

G MURPHY: Okay, Osprey, did you know much about that

as an entity, did you know where it was registered?

A MCDONALD: Osprey, I visited their office, I have been to their factory, they produced parachutes and they also produced maintenance services.

G MURPHY: Do you know where the company was registered?

A MCDONALD: I presumed, I don't know where, I never investigated but I presumed, it was Osprey AC so I presumed it was a South African-registered company. The one that I dealt with, whether there was a vehicle behind that, I am not sure but it was a South African-registered company, Osprey Aviation. To my knowledge, at the time we dealt with it, it was a South African-registered company.

G MURPHY: Right, do you know where it banked?

A MCDONALD: No, I have no idea.

G MURPHY: Okay. The negotiations that, no, you didn't deal with those so we won't go into those.

L JONSON: Did you know where Kevan was registered?

A MCDONALD: No, and the only reason I ever had knowledge of Kevan was because once Hugh showed me a schedule of rather than putting it as is shown here, which he normally would have done, Osprey 1% plus 3.5%, he had that in Kevan and when I asked who Kevan was, he told me this was the arrangement for dealing with the covert side of it. That's the reason I know about Kevan.

L JONSON: Did you ever have conversations with Richard Charter about that?

A MCDONALD: No, never about how he managed it. I had plenty

of conversations with what he thought he was entitled to. Richard always wanted more and I always wanted less, but never about what he-

L JONSON: Were any of those conversations with him documented?

A MCDONALD: Never at any time when you are discussing this subject were you ever encouraged or did you take records.

L JONSON: Why?

A MCDONALD: Because it was something, as was said previously, it was not, the whole matter or agents was to be dealt with as little documentation as possible. So, conversation and formal agreement, that was it. That was just the *modus operandi* of the company.

L JONSON: Do you know the rationale for that because, obviously, there are a number of reasons why. One might be commercial sensitivity and another one might be that because of the size of the fee, that people did not want to know where it was going to end up. Do you know, as I say, can you-?

A MCDONALD: There is no one reason, I think there is a whole complexity of reasons, the two reasons that you have mentioned and others, where they were going to have to go a step beyond what we would consider acceptable. We did not want to know and, therefore, did not even want to recognise. Let's just have the agreement and you just go do your business. The only time you ever discussed it was when they wanted an increase in the fee

or to sustain the fee when they were due for discussion.

L JONSON: Right.

A MCDONALD: It was not a subject that was, I mean in all my time, I probably discussed it with Richard two or three times, maximum. He often wanted to have a meeting with me on it but I said, 'Well, let's wait until we get into a business winning scenario before we start talking about unreal things.' I always discounted this with everyone as not relevant because we were too far, too early in the process to even have serious discussions about it.

L JONSON: Can I, sorry-

G MURPHY: No, go on.

L JONSON: Just staying on the Gripen document that we were looking at, page 105, where you signed the back, there are two other boxes that aren't filled in. One is the approval by Saab and one approval by BAE. Perhaps I can just take the BAE one quickly, who would normally be approving that appointment? Did that have to be filled in, that box number 20?

A MCDONALD: Yes, yes, Mike Turner would have to approve that.

L JONSON: This is the only copy that we've got, I've never seen-

A MCDONALD: All they have given you is my submission, that is not the completed, that should, they had an obligation to complete that.

L JONSON: That was going to be my question because we have

only seen this copy of it. Who would have signed the BAE part of it? You say Mike Turner.

A MCDONALD: Well, he might have delegated it to Neils Petersen if that was agreed at the minute. The approval. Neils was junior to me in the organisation, so, technically, it should have been Mike Turner and that should have been the managing director of Saab.

L JONSON: That was going to be my next question. What was Saab's involvement? You said that your responsibility for-

A MCDONALD: They had to approve, they had to have knowledge of who we were engaging and who approved the fee.

L JONSON: When you say, 'Knowledge of who we were engaging,' do you mean the principal or the name of the company?

A MCDONALD: The principal, not the process of how it was managed.

L JONSON: Okay, so they knew the principal and the amount, the percentage on Gripen.

A MCDONALD: Yes.

L JONSON: Did they know anything, out of interest, on how much you were paying for the Hawk?

A MCDONALD: No.

L JONSON: Okay.

A MCDONALD: They always assumed it would be the same sort of level.

L JONSON: Which people at Saab were in the know? I presume that only a limited number were.

A MCDONALD: Just the managing director and maybe the

commercial director. I would have to go and check because they changed that many times, I would have to go and check which ones.

L JONSON: For the period, it would have been Saab's MD and the commercial director for the whole world or?

A MCDONALD: The commercial director for Saab Aircraft, of the Saab aircraft business.

L JONSON: Okay.

A MCDONALD: You will see that they changed them three or four times and each time I had to brief each one, so they would all be involved but they changed three or four times in that period, there were big changes going on at Saab.

L JONSON: Would you brief them yourself personally?

A MCDONALD: Personally, face to face, in Linköping.

L JONSON: Was that each time that one was proposed?

A MCDONALD: No, it was summary. I never briefed them or sought their agreement to anything. I would simply advise them as to why we were engaging these parties. I never saw any of these agreements.

L JONSON: But they still had to be signed off by them presumably? If Saab turned around and said, when you said, 'I have engaged Richard Charter to do 1% on the Gripen' and they said, for any reason, 'We don't want Richard Charter,' presumably, what would have happened?

A MCDONALD: I don't know. I always assumed that good corporate governance, that we had limited the corporate governance in this activity to the absolute minimum but it was in place. When I

filled in these forms, I expected them to be formally completed. I, as an officer of the company, would expect Mike Turner to sign that section, having agreed it, and I would expect Neils Petersen to secure the agreement of Saab, having briefed Saab.

L JONSON: So, it was Neils Petersen who would brief Saab in relation-

A MCDONALD: He or Hugh Dickinson, sorry, Hugh Dickinson used to meet with their opposite number to him. They identified and I couldn't tell you who it was but they identified an opposite number to Hugh Dickinson. I remember Mike Turner, at one of the Saab meetings, recommending that they identify such a person and Hugh was then given the responsibility of getting him onside and signing the appropriate documentation. Ultimately, it would be Neils' responsibility to ensure that Hugh did that, Neils Petersen was ultimately responsible for ensuring that Hugh carried that out but it was Hugh's specific responsibility.

L JONSON: You said that you would brief Saab, how often?

A MCDONALD: Well, on this subject, only once to each managing director or commercial director, probably about three times in total to three different parties, but that's all. They just believed, in fairness to Saab, they just believed that British Aerospace knew how to do this and it wasn't an area that they, they asked very few questions in this matter.

L JONSON: Did they ask anything in relation to how the money was going to be spent?

A MCDONALD: No, nothing, they just accepted that we were experts in this type of business and they did not delve into it in any way, shape or form. That's why they gave us the whole marketing, I think, because they believed that British Aerospace were a very successful marketing regime and knew how to manage all of this, every aspect of it.

L JONSON: Say, for example, that you had to give them the summary on why you had appointed Kayswell, John Bredenkamp, what would you have said to them?

A MCDONALD: I would have said to them that he has been referred to me by Mike Turner and they should take any questions up with Mike. I never advocated John Bredenkamp's team to anybody at any time.

L JONSON: Do you know whether or not they had any dialogue with other people in the company, particularly I am talking about a very senior level, apart from you, about agents?

A MCDONALD: I know that Mike, at the outset, Mike Turner, when the Saab agreement was put in place, whoever was party to that, I presume Kevin was party to that. Then there was a bit about how the agents were to be managed. Whoever signed those agreements were party to it. This was all covered by the marketing agreement, that we would take care of the agent representatives. I

can't believe, you would not put something down in a contract without them having the clause discussed and agreed who was responsible and what it was there to do. I can't tell you who the parties were but, within months of meeting over this job, the marketing agreement with Saab was signed at the highest level in the company. Dick could have been involved for all I know, I don't know who the final signatories were.

L JONSON: If Saab had any queries on any of the agents for some reason, who would they speak to?

A MCDONALD: They would speak to the managing director of the region, for any particular project. I had a good dialogue with Saab and was there doing all sorts of work for us in terms of offset programmes. They were so responsive and you had to explain to them why offset was necessary and take them through the whole process. It was a very professional relationship with Saab and the only thing is that they had handed over the marketing responsibility and then wanted to be the marketeers. As I said yesterday, they kind of parachuted some of their guys in and they were really amateurs in a very professional field, so, it was best not to engage them, because they said the wrong things. You would go through a plan about getting this person on site in terms of the aircraft before we'd talk to the head of maintenance about the advantages of the aircraft. They would go and talk to the head of maintenance and say, 'As soon as we have

convinced this guy that this is a good aircraft, we will come and speak to you.' So, he was on guard already, it was just naivety.

Saab are not a professional marketing organisation in my view. Having said that, I used to compete with them in the commercial aircraft world, where they were very competitive. I had a long relationship with Saab Commercial, the Saab 340 was a competitor to the Jetstream 31, and I competed with them for many years in the field. So, I knew Saab but this was an area that they were completely new in. I think this was the first ever overseas sale of one of their military aircraft, ever. I think they had only ever sold to the Swedish air force before.

G MURPHY: Sticking with Richard Charter, I think, in total, Richard received something in the region of £1.8 or £1.9 million through Osprey, the overt company, and something in the region of £25 or 26 million through Huderfield, being the covert company.

A MCDONALD: Is that Sterling?

G MURPHY: That's Sterling. So, in total, we are talking about around £28 or £29 million. You know what Richard Charter was doing, he was there and you were working, from what you have said, quite closely to him. Does that represent good value for money for BAE?

A MCDONALD: Considering the size of the contract, I think, on balance, when I hear these numbers, I didn't

know until you just shared them with me, when I think about it now, I think Richard Charter was well rewarded for what he did but worked exceptionally hard to achieve the result.

L JONSON: We are not experts in the defence world, you are, you are experts in the aerospace world, £28 million on any account is a lot of money.

A MCDONALD: Can I just explain? None of us ever expected to do Hawk and Gripen. This particular campaign was a windfall for everyone who was involved because none of us, at any time, until late in the process, believed that we had a chance of winning both Hawk and Gripen. The amount of effort, Richard Charter was working on this campaign, Hawk, a long time before I ever appeared on the scene. He worked from the time I got engaged I would say every day, seven days a week, with the air force officers or with anything he could do to promote these products. When the Swedes came over, he would pick them up at the airport and he would give them briefings about how the South African air force worked. In my opinion, he did a superb job and was one of the most hard-working and dedicated. He was very selfish, a greedy man, a very greedy man, but one of the hardest working people that I have ever worked with and a very intelligent man. After early clashes with him, he fell into line, he followed our route and became part of the mapping process and enjoyed it very much. That's why I qualified it. When I see the

ultimate value of the contract and how big it was and the effort that he put in, he was well rewarded, I am not saying that it was a small reward, but he of all people merited it. He of all people merited it, in my opinion.

G MURPHY: You just said that Richard, over time, you worked with him and had other tendencies when you first joined but he fell into line and followed the model that you had put in place.

A MCDONALD: I can give you an example. Yesterday, who was it? Was it Steyn?

L JONSON: Pierre Steyn.

A MCDONALD: As I was leaving, Pierre Steyn came onside and Richard was assigned as one of his tasks. Pierre Steyn was a clever man and one of his tasks was to get to Pierre Steyn through a series of dinners or round his house or whatever to get him understanding the advantages to South Africa in supporting the British Aerospace route. That's the sort of thing that Richard did and, I believe, at the end, he was telling me that Pierre Steyn was coming onside. That's what he was telling me when I was leaving. Whether he did or not, I don't know but he put a lot of effort into that sort of engaging of people to take them through. I used to say to him to show people discreet parts of what the offset programme is going to look at, show them the performance of the aircraft against other aircraft. We had all sorts of information, Richard was an aviator as well so he understood

and was able to articulate it.

G MURPHY: My question really is how can you be so sure that he was fully onside, Richard? We know the model you were trying to achieve and we understand all the reasons behind that. Obviously, a lot of hard work went into it but, at the end of the day, how can you be so sure that he really was fully signed up to the procedures you wanted?

A MCDONALD: He must have been one of the best actors in the world. I don't know what happened after. Let me tell you I understand happened. I never spoke to Richard since I left the campaign, I had no communication with Richard or his wife, Janet, who is a most lovely person. I used to use Janet to talk sense to Richard because she is such a decent woman and used to talk a lot of sense to Richard. Richard was so heated, you could wind him up and he would explode very easily. Winding him up used to be Niall Irvine's weekly engagement and he used to do it just to wind Richard up. The two of, them, had an unhappy relationship. When I left, I believe that they ostracised Richard, they cut him to a large extent and Kevin Smith did not engage Richard to the same degree that I engaged Richard. I believe that Richard resented that and I heard that from Stuart McIntyre.

G MURPHY: Do you know why that was?

A MCDONALD: Richard was such a believer in the way that we should go about this by that time and Kevin had

his own views of how we were going to win the campaign. He then favoured, it was a timing issue. I introduced Kevin to Fana, who had left government just at that time. So, Fana was effectively a free agent and I believe that Fana then became key to helping win the business, particularly in industrial offset and black empowerment. Kevin really took more advice from Fana than from anyone else in the team and marginalised Richard. With Fana and Richard, it was not necessarily a good relationship. If you imagine my role as a marriage guidance counsellor because all of these personalities really didn't get on but I got on with each of them. I used to encourage them to see the good side. I was almost living down there at that period, and I would rush out. I don't think anyone ever engaged, even Kevin, I don't think he engaged himself in South Africa to the same degree that I did.

L JONSON: Do you know if the company had a consultancy agreement with Fana at that stage?

A MCDONALD: In my time, never.

L JONSON: Not when you were there but you say that Kevin Smith started to, once Fana had left government, before the contract was signed, do you know if they had a consultancy agreement with him? I am just wondering how he would be rewarded for it.

A MCDONALD: I know how he was rewarded. They asked Alex Roberts to reward him because they believed

that Alex was getting too much. I didn't realise how much he would get, when we started off the process, we just agreed a percentage. We didn't realise how much we were going to get but I put a lot of work into it. He was unhappy and I know from Alex that the compromise he reached, which I believe was with Kevin Smith, was that he would take care of Fana, he would look after Fana.

L JONSON: For work that Fana did where?

A MCDONALD: From the moment the aircraft was down selected and Fana resigned from government, the whole argument was going to be about could we contract for the offset, would we identify the right offset packages and would there be enough black empowerment in the offset companies that we took on? That whole process we took on, which was fundamental to winning the business, Fana was going to devote himself almost fulltime, if I understand from Kevin, to helping that happen. Therefore, he became, I you had said to me, I would have said yes, Fana's help during that last 12 months would have been absolutely key to helping us win the business.

L JONSON: How helpful was Fana before those 12 months?

A MCDONALD: Generally very helpful but he was as helpful to everyone. He had a good relationship with all the contractors and was generally helpful with good advice insisting on black empowerment. He gave good, professional, high quality advice and

good direction as to who we should talk to. He was very accommodating, not just to us but to everyone. He knew the Germans, the French, he knew everyone and was very accommodating. At the end, I was saying to Kevin that, if he is free, we needed to get him onside, not the other parties. That was my advice to Kevin Smith, get Fana onside.

A MCDONALD: How can you be sure that Arstow or Alex Roberts weren't being required to hand over some of their fee for work that Fana did while he was at the early stages as well?

A MCDONALD: I wouldn't know.

L JONSON: Do you think all of this would be documented?

A MCDONALD: None of it.

L JONSON: You can imagine obviously that we are coming at it from an angle trying to establish who the key players are and you have got Fana, who is, you know, the aide de camp to Joe Modise, a key figure and, from what you are saying, money is now being paid on to him but only for work he has done just after he leaves government.

A MCDONALD: Can I say, just to sort of clear up, I left at the time of the down select. The down select was, these are the products we are going to have in our air force, subject to commercial terms being agreed and subject to offset packages being put in place, right? Fana had no influence over that down select process.

L JONSON: How do you know?

A MCDONALD: Because it was air force, I was air force and

the Department of Trade and Industry and he had no influence.

L JONSON: Did Joe Modise not have any involvement in the down select?

A MCDONALD: Yes, but he was dealing with the chief of air force and Joe himself took a great personal interest in the down select process. Fana was not involved, to my knowledge, in the down select process.

L JONSON: But, he is very close to Modise. Just from an outsider's point of view, if you wanted to get to the defence minister, the best person to go through is Fana.

A MCDONALD: No, because, as I tried to explain earlier, Fana was Thabo's man in Joe's organisation. Joe was suspicious of Fana to some degree. Let the old men have their day in the sun. Joe Modise is one of the old regime, he is a President Mandela man, very solidly, him and the president are very close. In every ministry, you will find a Fana and Fana was Thabo Mbeki's man placed in there and they used to go to what they call the, I can't remember, it was called the alternative cabinet. That wasn't the expression but it was a kind of alternative cabinet meeting where Thabo in Soweto would have all his lieutenants together from all the ministries, all the young guys he's got, briefing him on what other ministers were doing.

I knew Joe very well. I had a great relationship with Joe and eventually a great

relationship with Fana and a good relationship with Stella. With Alex Erwin I would have a good relationship. I tried to have a good relationship with them all and I used to hear the different viewpoints and Joe was a bit paranoid about Fana and deliberately did not take Fana to various meetings because he didn't want Thabo to know what he was up to. So don't be disillusioned to think that Fana had that much influence over Joe's thinking capability or what he did. He was very much Thabo's man in that camp but Fana's great asset was that he knew the ANC modern structure and where it was going and black empowerment. He could articulate the whole economic, social policy of where black South Africa was going under the ANC after the end of the old men having their day in the sun.

I identified him as being key to the ongoing relationship. You have to look at it as a 25-year relationship once you place the aircraft and much of the value comes not in the initial. When we offer offset, we offer two to one offset. Two to one's offset is recognised in the aircraft you are going to fly for 25 years and the value of the spares, the engine replacements, aircraft parts, maintenance crews, the software updates and all that. It is so huge, much bigger than the initial contract price. The relationship beyond the initial signing of the contract is critical. Joe's

period of influence of decision making was coming to an end because he was retiring but the new generation was very much going to be Thabo and Thabo's people.

That's why I recommended to Kevin that he should focus on understanding. I said that we had the down select in place so the air force are onside. We had the air force onside at the down select procedure. It was then down to hardnosed commercialism, black empowerment and offset. It was all down to that in the final 12 months. Jay Naidoo and Fana were very close. Jay Naidoo is a Thabo man. I shared all of this with Kevin. If you can imagine one of you guys was taking over from me, I shared it like I'm talking now. I shared all this with Kevin and he put a lot into the relationship with Fana.

G MURPHY: Where is Kevin now?

A MCDONALD: He is Chief Executive at Westland and was just knighted in the last round of knighthoods.

G MURPHY: Is there anything on Charter, I'm just going to finish?

L JONSON: You say that although the company didn't want to know that one agent knew another agent was operating or anything like that, do you know if any of the agents had a relationship with each other? For example, do you know if Charter knew Bredenkamp?

A MCDONALD: Yes, they all knew each other. In the end, they all knew each other, not in the beginning, but in the end. When I left, they all knew each

other. Sorry, the active agents all knew each other.

L JONSON: Right, okay, what about the passive ones?

A MCDONALD: I think Richard Charter knew about Basil Hersov because of the previous encounter that he got the 125 business from him. So, I am sure he knew about Basil Hersov. He would not know about Nabil, he would know about Alan Curtis. Nabil was probably the one that nobody knew about but I think they all knew about each other.

L JONSON: What? That they had an active-

A MCDONALD: They knew that they were agents of British Aerospace.

L JONSON: On the Hawk deal?

A MCDONALD: On Hawk and Gripen, they would all know that.

L JONSON: Did they, did Charter ever talk to you about 'why on Earth have you got-?'

A MCDONALD: Oh yeah, a nightmare, I mean, he was so paranoid about engaging the Bredenkamp regime. He was so paranoid about it.

L JONSON: Why?

A MCDONALD: He thought they were useless. He said 'they are Zimbabweans who don't know South Africa, what do they bring to the party?' He was very critical of their involvement.

L JONSON: Did he voice any concerns or suspicions about what they might do?

A MCDONALD: Oh yeah, he was saying that they were in to see Chippy Shaik. He would come to me telling me that they had been to see Chippy and can they do

this. I knew beforehand that they had been in to see Chippy Shaik because Richard Charter had the most unbelievable intelligence network down there, unbelievable. We knew everything that was going on through Richard Charter. He was devoted. He knew the Germans, the French, I mean he had everybody.

L JONSON: What particular suspicions did he voice about them going to see Chippy Shaik?

A MCDONALD: He thought they were not following the plan.

L JONSON: What do you mean by not following the plan, I'm sorry, can you spell that out?

A MCDONALD: I had the map of how we were going to tackle every ministry, every individual, key hot buttons, messages we wanted to convey and who was going to do it. I had the mapping process all set out and we used to meet every week to discuss what was done. This was Kevin, and the guy that's managing this for me would be Stuart McIntyre, he knows the whole mapping process. They would all get their assignments and then he would come in and say, 'Those bastards of Bredenkamp's team have been in to see Chippy Shaik and have been talking about the Hawk', they were not on the plan, where were they on the plan? He became such an avid supporter of the plan, it was agreed I'll speak to them, I'll speak to them. This was partly my fault because I was saying to him, 'Well, show me how you can help.' All the time I'm saying to, you must remember, I was,

the Bredenkamp relationship, I was told to engage them, met them, did some research and came back to Turner, 'I don't see what value these guys are going to bring.' 'Trust me, they will bring value as the time progresses.' I'm into about a year of working with them and I go and see Bredenkamp that I am not supporting them at the next renewal. Bredenkamp threatens me.

L JONSON: How does he threaten you?

A MCDONALD: Physically, he said that, it was a physical threat. I can't now exactly recall the exact words but it was a physical threat. I came back and told Sid and Mike Turner that I wasn't prepared to work with the man. Then, I am up at the rugby and he appears at our house, goes into my garage and apologises and says he will never use language or threatening language like that again. I said, 'Fine.' Then Turner told me to continue to use him.

I was never convinced that, what I will say, as I said earlier, Jules Pelissier and Trevor Wilmans went about trying to find out what we were doing, asked me to share some information about my approach, I shared the whole approach with them. 'This is how I want us to go about it.' 'Do you want us to do anything?' 'No, not really, I've got it all covered.' 'Well, we'll see what we can do.' They were all the time trying to add value to the process that we were running down there, all the time, Trevor and Jules.

L JONSON: Did they ever add anything?

A MCDONALD: In my opinion, never. In my opinion, they would bring shared value, in the sense that they would bring knowledge to the party that we would have either already known or were in the process of finding out. It was like shared value but never unique value. There was nothing they did that brought unique winning value to what we were doing, nothing.

G MURPHY: Did Bredenkamp know what they were doing? Was he aware?

A MCDONALD: I am sure Jules would have briefed him. Jules flew back and forward. The reason I know, he must have briefed him, because then Bredenkamp had conversations with Turner and Turner would then tell me things I was doing down there. 'Don't tell me any more, I've heard it all from Bredenkamp.'

L JONSON: Did Bredenkamp have direct contact with you about the campaign at all?

A MCDONALD: Very sporadic.

L JONSON: But it did happen?

A MCDONALD: Oh yes.

L JONSON: Would he telephone you?

A MCDONALD: No, I would go to his office. I must have been in his office five or six times and briefed him.

L JONSON: This was at was down at Hurst in Berkshire?

A MCDONALD: Yes, in Berkshire.

G MURPHY: What sort of things were you discussing at those meetings?

A MCDONALD: Jules was always present and we'd talk about

where we were with the air force. I would treat them, actually, I treated them as if they were partners. I believed that, if I was going to get any value out of them, we wouldn't have to pay them money but let's try to get value out of these guys. So, I used to share the plan with them and see if they could offer any advice from their contacts on any way of positively advancing anything. Trevor was well regarded in South Africa and knew a lot of the air force people as well, and so did Jules. They became, they were known to represent the French on the helicopter deal, did you know that Bredenkamp, in the helicopter selection, I think it was Alloway, they didn't just win with British Aerospace.

Remember what I was saying yesterday, there is an example, when the announcement was made about the general package, Bredenkamp's team won twice, they won with us and they won with the French. I think they won something with the Germans as well. I am not sure, but they certainly were winners in two parts of the deal. Therefore, they had exposure to the Armscor and exposure to air force and they promoted. If you said to me, did they, I said shared value, not unique value.

They promoted the Hawk, they promoted the Gripen. They didn't do a better job than Sir Patrick and they didn't do better job than Niall Irvine and they didn't do a better job than

Richard Charter. These boys were aviators, serious aviators. These other boys were intelligent boys, could understand the message and convey it, but not with the same power of authority that the ex-chief of the air force of Britain and head of the Gulf War or fighter pilot. Niall Irvine had more flying hours on Tornado than any other pilot around, so he was seen as a real aviator. Alex Roberts was an ex-chief test pilot. Alex promoted the Hawk and Gripen as an ex-chief test pilot and Richard Charter is an aviator.

G MURPHY: What was Trevor Wilmans' background?

A MCDONALD: I don't know.

G MURPHY: You don't know.

A MCDONALD: I don't know, he seemed to have known Jules, and Trevor, he seemed to have been based in Zimbabwe and seemed to have moved to South Africa. He worked for Bredenkamp and Jules for a long time, as far as I am aware.

G MURPHY: But you are not sure whether he is air force background or anything?

A MCDONALD: No, I wouldn't say that he was, I think he was, like all of them and like Jules, I think Trevor served his time in the Zimbabwe armed forces. I think they all had to. Jules was head of the, what do you call them, the scouts.

P PATERSON: Selous scouts.

A MCDONALD: The Selous scouts, he had been head of the Selous scouts.

G MURPHY: What about the name Walter Hailwax? Does that

mean anything to you in relation to Kayswell?

A MCDONALD: I don't know it, I don't recognise it.

G MURPHY: What about the name Rick Passaportis?

A MCDONALD: I know Rick, a big huge man, huge.

L JONSON: How do you know him?

A MCDONALD: He was the man in Zimbabwe and he came down a couple of times and we would meet in Johannesburg when he was visiting. He was Zimbabwe-based, not in my time I believe not South Africa-based.

G MURPHY: In what capacity were you meeting him?

A MCDONALD: Every time I was in - country, Jules seemed to know I was in - country and he would ask to meet me. When I would go along to meet him, on occasion, Rick Passaportis and Trevor were there. So, I would meet and talk and I was told that he was John Bredenkamp's man so I could talk freely. So, I discussed where we were and used to meet with him. Rick was never, to my knowledge, ever active in our activities, never.

L JONSON: Right okay, no, I mean if he's involved, I was going to say, should we stick with Kayswell now?

G MURPHY: Yeah, right.

L JONSON: Do you want me to take this one?

G MURPHY: Right, go on then.

L JONSON: Can I just take you to Kayswell, which is the Bredenkamp/Pelissier vehicle. I want to take you to DOCMAN number 009911000088 and that is on our page 56. It is a letter from Jules Pelissier to Julia Aldridge, who was, I think, at that stage, Hugh Dickinson's deputy at HQMS.

A MCDONALD: I think she was just one of his, he had about four or five girls working for him. In my time, she was one of those, she wasn't ever Hugh's deputy but she was on the South African campaign.

L JONSON: Fine. Well, she, the bit I am interested in is on page 57, I think about the third paragraph down, where he writes, 'In terms of our verbal agreement with Mr Wooding, would you please draw up a representation agreement for South Africa for a commission of 7%?' It was really what you knew about Jerry Wooding's involvement with the Bredenkamp group because I know you said, before you came on board, Jerry Wooding was heading up marketing generally. So, I can see, perhaps, why he might be involved but could you give any more, do you know about his relationship with Bredenkamp?

A MCDONALD: I believe that, before Jerry was head of marketing, Mike Turner was, so Mike Turner and Jerry went to work in defence marketing before Mike moved on to commercial. It was a kind of planned succession if you like. Jerry had the African region and certainly was responsible for everything. By the time IMSO was created, he was responsible. Before that, he had major regional responsibility into Mike. So, Jerry Wooding, Robbie Roberts, that I mentioned earlier, was a Jerry Wooding appointment. So, Robbie was very close to Jerry and Jerry relied on Robbie and Robbie would have introduced him,

or Mike Turner would have introduced him at some time to the Bredenkamp team. I don't know where Jerry was when they won the Hawk deal in Zimbabwe but it wouldn't surprise me if Jerry was actually in post and shared in that success.

L JONSON: Who would have been responsible for the decision to give Bredenkamp 7%?

A MCDONALD: Mike Turner or Jerry Wooding. Jerry Wooding obviously here. When I took over the agreement at 7%, I understood that Jerry had agreed these things and I, as I said earlier, saw no reason to challenge those levels of commission because it was only getting into an argument. They were people that I didn't really know. If he had left it to me, I would not have engaged them but having been told to engage them, I didn't see any point in haggling over percentages because we were so far away from winning business at that stage that it was just a complete waste of my energy so I didn't even spend the time doing it. But I was surprised at the level.

L JONSON: In this particular letter, Pelissier is corresponding with HQMS directly, providing company registration documents and things like that. Was that normal practice? Was it up to HQMS to ask for-?

A MCDONALD: We would never, if you had asked me, until I saw this, I was surprised that we would even write letters like that. If you asked me. The way that Hugh Dickinson's regime worked, I believed that they met offshore, information was provided

offshore and none of it was ever brought onshore, certainly any direct correspondence with the company.

L JONSON: Okay, I mean, that's obviously a letter to the company rather than-

A MCDONALD: Yeah but, I was just surprised, it just seemed to me, in view of all that I had said earlier, the way this was supposed to operate, I just believed everything was done offshore and never brought onshore.

L JONSON: So, in terms of, apart from the proposal form then, did you ever request any form of company documentation or what we would traditionally call due diligence, which is establishing the structure of the company, where it banks, identifying the ultimate beneficiary? Would you be involved in assimilating any of that information?

A MCDONALD: None, if you can imagine, the managing director identifies the parties he wants to work with, agrees the percentage with them, gets the referral committee to support that recommendation, not to support it but to approve it. Then, from that moment, the whole relationship is handed over to Hugh Dickinson's organisation and you don't hear about it again and you are not involved. The only time you are involved again is, 'Do we renew it?' and that's it. If you are successful, they deal with the remuneration, the payment terms and the whole thing.

L JONSON: So, who in that whole stage would you say bears responsibility for deciding whether or not the adviser is an appropriate person to appoint?

A MCDONALD: The managing director of the region: me, in the case of South Africa, all the time. I could have terminated the agreement. I was the one who could terminate the agreement.

L JONSON: So, when you were pushing someone forward, you are saying, you are vouching for this person.

A MCDONALD: You are saying that you need this person to help to win the business, you, the managing director of the region. Often, the way the process worked, I had people like Mike Mendoza out in Malaysia or Frank Bevington in Indonesia. These boys knew their territory so well that they would say to me, 'We need this person.' Ultimately, just so everyone stood up and took accountability, the managing director, if it was a Mike Mendoza resolution or a Frank Bevington recommendation, it was ultimately the managing director of the region that had to stand up and say, 'I want this man.' That was how critical it was to the regime.

L JONSON: Right. Okay, I will pause you there because we're coming to the end of the tape. By my watch, it is 10.50am, do you make it that?

G MURPHY: 10.51am.

L JONSON: I am turning off the tape.

(End of Tape 9)

TRANSCRIPT OF INTERVIEW HELD AT TODS MURRAY LLP, SOLICITORS,
EDINBURGH QUAY, 133 FOUNTAINBRIDGE ROAD, EDINBURGH EH3 9AG ON
WEDNESDAY, 15TH AUGUST 2007.

CASE REFERENCE RLI02

TAPE 10 OF A BATCH OF 14

PERSON BEING INTERVIEWED: MR ALLAN MCDONALD

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MR PETER PATERSON	-	SOLICITOR

B SMITHWHITE: This is tape 10 of the Section 2 interview with
Mr McDonald. The time by my watch is 11.02am.
Please reconfirm, Mr McDonald, that we have not
discussed any matters relating to this case
during the interval since the end of the
previous tape.

A MCDONALD: I can confirm that we have not discussed any
matter.

B SMITHWHITE: Thank you.

L JONSON: Mr McDonald, at the end of the last tape, I was
asking you some questions about the agreement
that John Bredenkamp and his team had with, with
BAE through a company called Kayswell. Can I

RLI295

Corrected Transcript

take you to our document pack, page 64, which is DOCMan reference number 009911000169? It's really the bottom of that sheet that I am interested in. This is an HQMS progress record sheet, which is an internal HQMS document that I understand logs the progress of a particular agreement. It is dated, there is a comment at the bottom dated 11th December 1995. Is this a document that you would have created?

A MCDONALD: No, I've never seen, I never saw this type of document before.

L JONSON: What we can see is that it says, 'Country: South Africa, Adviser: Kayswell' and 'Product: Hawk.' There is a code at the top, SOU15. Do you, were you familiar with any codes that were given?

A MCDONALD: None.

L JONSON: It says, 'Approval signature to AMMCD,' is that you? Half way down, sorry.

A MCDONALD: 'Approval signature to,' yes, Allan Anthony McDonald, yes.

L JONSON: Then it says, 'Message delivery: Luxembourg.' Do you know what that means?

A MCDONALD: No, no.

L JONSON: Okay, that's fine. Really, it's the script at the bottom, which says, 'On hold, await further instructions from AMD.' Can you shed any further light on why that might have been written, what the 'On hold' relates to and why?

A MCDONALD: Well, throughout the Kayswell service agreement, when it came for renewal, I made them go through

hoops, I was never, I mean never readily accepted that they were going to do anything for us, so, I always made them dance a bit. First of all, I never understood the reason why, but I went along with Mike Turner. 12 months later, I was still not happy. Again, at the behest of Mike Turner, still to engage them, indeed, throughout the whole time. What I did recognise was that they were trying. I saw them trying and I still believed, I still had the doubt that maybe I am wrong and maybe Dick and Mike are right that, at the end of the day, we maybe need these guys.

L JONSON: You maybe need these guys?

A MCDONALD: To help us win the business.

L JONSON: In any particular way?

A MCDONALD: Not in the sophisticated form that I was approaching of winning the competitive tender, the down select, the black empowerment and the offset. I felt that maybe the traditional ways in Africa of running business were going to have to come into play and so-

L JONSON: Again, I am sorry to kind of get you to spell out in black and white but that is what I am going to need. When you say, 'Traditional ways,' in Africa?

A MCDONALD: I had no experience of it first hand but I always understood, and being an aerospace man and fairly near the top of the regime, that, in some of those countries, it was necessary to incentivise a favourable decision by making a

financial payment either to one of the key decision makers, who sometimes were government officials.

L JONSON: Thank you. Okay, can I just ask you to turn over the page? It is a signature that I don't recognise, that's all. 'Approved on behalf of BAE,' do you recognise that signature at the bottom, this is DOCMan reference 009911000177?

P PATERSON: There are two signatures at the bottom, which one?

L JONSON: The BAE one, not the Saab one.

A MCDONALD: Right. I don't recognise this signature and am trying to think who it might be. I don't recognise the signature. It could be Jerry Wooding and I will tell you why I think it might be Jerry Wooding. Jerry Wooding had the overview of the Saab agreement.

L JONSON: I don't think that's Jerry Wooding's signature because I recognise it, and also it's 'Jerry' with a 'J'. I have seen Jerry Wooding's signature elsewhere and I would be very surprised if it was his.

A MCDONALD: Okay, okay, I can't tell you whose signature that would be but it probably, a lead to who it might be. There was a joint BAE board and Gripen board and it probably was one of the personnel on that board that's got the authority, whoever was the commercial director of that board for British Aerospace might have signed that.

L JONSON: Okay, alright, that's helpful we can look into

that. The next page is-

A MCDONALD: See the signature?

L JONSON: Above it?

A MCDONALD: Below, it.

L JONSON: Yeah.

A MCDONALD: I think that might be, I don't know but I think that's the guy that Hugh Dickinson had the direct relationship with.

L JONSON: Oh right, I should have asked you that because I presumed that might be the managing or the commercial director.

A MCDONALD: No, I don't recognise it but I think I recall the name, just when I see it now written, I think it was the person that Hugh dealt with on all of this.

L JONSON: Alright, the next page is DOCMAN number 009911000189, which is a request to amend arrangements in South Africa ex-committee by Hugh Dickinson. It is circulated to Philip Riley, MJ Turner and yourself. There are a number of copies of these, I should say, the one I have included in the pack is the one, as you can see, with the tick next to your name, so it is presumably the document that was sent to you.

A MCDONALD: I thought that was because they only kept my records and destroyed their own. I always kept records and was never one that destroyed records. When I saw that, I thought that had come from my old files.

L JONSON: It is difficult to say, we have got material

from a lot of sources.

A MCDONALD: I never got rid of any of my records. I am a great record keeper.

L JONSON: That was one of our questions. What type of material would your marketing team have kept and would it have been kept in South Africa?

A MCDONALD: No, it would have been kept, Stuart McIntyre would probably have one of the most comprehensive record of the whole campaign story and he probably had it on his computer disk. I left all my files when I left and I am like a magpie, I didn't throw anything out, I didn't destroy anything. I'm a magpie so my files would be as comprehensive as anyone's, if you can access them down there. When I left, I had to leave all my files.

G MURPHY: They were in the UK?

A MCDONALD: They were in the UK, in my offices in Farnborough.

G MURPHY: Was much documentation kept in the BAE South Africa office in Pretoria?

A MCDONALD: Very little. A copy of the mapping but I was more encouraging people trying to use a paperless office so we were all using computers and exchange of disks for information. The best access of hard copies would be my files in Wharton, in Farnborough.

G MURPHY: Okay.

L JONSON: Page 67, DOCMAN reference ending 190, if you look down to the Kayswell entry, you can see that it says, 'Consultancy agreement,' dated

'1st November 1994', 'Effective 1994, expires 1996.' There is a little asterisk saying, 'Approved but not yet signed.' Now, this particular application is dated August 1996. Were you aware of the fact that the original Kayswell agreement had never actually been formally signed by the company? Did you get involved at all?

A MCDONALD: I may interpret that differently than you, if I might.

L JONSON: Please do, sorry.

A MCDONALD: Oh yes, okay. I think that was the old agreement, the original consultancy agreement, expired in 1996 but had been approved by the company but had not been signed by the parties. That is my interpretation. I would not have any knowledge of the signatures or what the status was but I always understood everything to have been signed. When it wasn't signed, I used to get phone calls. Jules Pelissier used to ask me to speak to Hugh to get things signed, so I don't know where the hold up was. Sometimes, it was just getting the parties together.

L JONSON: Can I take you to page 69, which is 009911000176, which is a proposal to amend, in respect of Kayswell, it's dated January 1997? I think there appears to be a post it on the top, with the inscription, 'Hugh disc. with CM, who will ask AMD if CM can sign on his behalf.' What this appears to be is a negotiation to amend the fee, or a proposal, to amend the fee

on the Gripen to 4%, so coming down from 7% to 4% in 1997. Firstly, do you know who the CM would be at the top?

A MCDONALD: No, but it could be, it could be Catherine, who is Mike Turner's secretary, who used to be my secretary. I'm just trying to think what her surname was, and I would have said no by the way.

L JONSON: Right, okay, that's fine.

A MCDONALD: I would never have asked anybody to sign that. She was a great secretary but the girl who is Mike Turner's secretary used to be my secretary, Catherine, and I am trying to think what her name was.

L JONSON: I think that it might be in our general pack, I'll have a look in a minute.

A MCDONALD: That's the only person, I saw that note when Peter gave me the pack and it's the only person I think, you know.

L JONSON: Again, this is a document, this is the most complete version of the document that we have and it's not, there is no signature in the 'Approved by' box. Do you remember who would have signed that?

A MCDONALD: Well, that's Niall Irvine, that's been proposed, he proposed it. The only person that could approve it would be, see, the way it would work is that, this was done ex-committee, yeah?

L JONSON: I don't, we probably can't tell.

G MURPHY: I don't think we know.

L JONSON: It's not clear that it's ex-committee or if it's

gone through a referrals committee.

A MCDONALD: I think I would have signed that. If this did come down to 4%, because I know it was effected because Hugh told me the agreements were effected, I wanted the change, this was one of my first big issues with the Bredenkamp team because I was taking them from 7% to 4% on Hawk as well.

L JONSON: So, can you just talk us through that? In relation to Charter, you simply said that you stuck 1% on the Gripen because that was what he had on the Hawk.

A MCDONALD: 4%, 4% total.

L JONSON: Sorry, yes, 4%, exactly. Here, we have clearly got a reduction.

A MCDONALD: And we had a reduction, this was in 1997, when I took everyone down from, effectively, 25%, I was taking everyone down to either 19% or 17%, my objective was to try to scale everything down. We were having to put indicative prices in and I didn't want to go in with a 25% headquarters levy.

G MURPHY: Who did you discuss that with, renegotiating down to 4%?

A MCDONALD: Bredenkamp and Jules Pelissier.

L JONSON: What about within the company?

A MCDONALD: I would have told Turner, nobody else.

L JONSON: You say 'told', would you have discussed it with him, would he have contributed?

A MCDONALD: Oh, he would have commented, like, 'I'm happy to take', 'People like Bredenkamp can't live with

this', 'It will not go to down select, it's too much', 'They are not contributing anything anyway.' He will have agreed.

L JONSON: Did Bredenkamp get his fee slashed more than others or was it all done on a parity basis?

A MCDONALD: No, it didn't. I looked at everyone's contribution. I looked at what I thought was of value to us, who I thought was the most valuable, who would generate value to winning the business. I always had a cynical approach to Bredenkamp and I think I took more off him at that stage than anyone else.

L JONSON: Obviously, he still remained the highest. Did you think about bringing him down to almost a nominal level?

A MCDONALD: After the down select, I never got a chance to say, but after the down select, I would have rewritten the book totally. If Bredenkamp got anything, it would be just wood to keep him from causing any nuisance value. If you said to me, I would have said that he could do damage, he is now so well integrated into what's going on he could do damage, so let's agree what's a good percentage to tell him to just keep his nose out and let us finish the job, this is your payoff for all the contribution you have made so far and let's hope that we are lucky. That's what I would have done. I would not have left the levels at what they were and, you know.

G MURPHY: Can you remember with whom you actually discussed that?

A MCDONALD: John Bredenkamp.

G MURPHY: It would be John Bredenkamp.

A MCDONALD: Absolutely, and Jules Pelissier, together.

L JONSON: Would you have discussed it with either of them?
Would you ever have thought to keep
John Bredenkamp out of the loop for any reason?

A MCDONALD: Never, never. Jules did not have the power to
agree a reduction. There was no point in
discussing it with Jules.

L JONSON: How did you know that?

A MCDONALD: Because Jules told me and Jules said, 'You will
have to talk to John.' It was Jules who set the
meeting up to talk to John with him present.

G MURPHY: What did John say at that, I mean you are taking
3% away from him in one fell swoop?

A MCDONALD: He was really unhappy but, after having being
threatened and told that I don't want to be
threatened again, he didn't have that option.

L JONSON: All the threats were beforehand?

A MCDONALD: I had all that beforehand but there was a lot
more respect for me at that time and I think the
way that I was running the campaign was coming
through. I think they thought that this guy, I
think Jules was telling John that this guy could
be crazy enough that what he is doing could win
this business. I think that they were much more
compliant with what I wanted at this stage than
they were early on.

L JONSON: Yesterday, you talked about, in the initial
stages, them saying what they could do, i.e.
they did suggest they might bribe some people at

very early stages.

A MCDONALD: I didn't think I said the word 'bribe'.

L JONSON: You may not have done.

A MCDONALD: But I think the inference was that they could positively influence the key decision makers in the process, let's identify who they are. It was very clear, when I first engaged with them, that they were old process, let's identify who are the key decision makers and let's incentivise them to make the right decision.

L JONSON: Okay, so, let's get: cards on the table, as far as you were concerned, when they spoke to you, they suggested identifying people who were important with a view to approaching them to offer financial inducements.

A MCDONALD: Well, let's put our cards on the table in the sense that, when they were engaged, they weren't aware of the internal discussion as to whether they should or should not be engaged. So, when they were engaged, they were under the impression that they were being engaged to continue with the *modus operandi* that they were previously engaged under. So, they are coming at it by who do we have to take care of, right?

L JONSON: Okay.

A MCDONALD: They are coming against the guy who really isn't into that kind of mindset.

L JONSON: When you say 'They', I need you to identify who it was.

A MCDONALD: Jules Pelissier and John Bredenkamp, they approached Mike Turner, 'We need this new guy to

approve the agreement.' Mike Turner told me to approve the agreement, I put forward the agreement, proposed it, Mike Turner accepted it, the agreement's in place, I go and speak to them in the first campaign, who are the key decision makers, who do we have to take onboard, let's identify who these are and let's do the job.

L JONSON: Who are 'They'?

A MCDONALD: John Bredenkamp and Jules Pelissier.

L JONSON: Both of them?

A MCDONALD: Both of them, absolutely.

L JONSON: Where were you, do you remember?

A MCDONALD: In their offices, I only ever had those discussions of that nature in their offices.

G MURPHY: In the UK?

A MCDONALD: In the UK.

L JONSON: When they said that, what was your response?

A MCDONALD: I said to them that it was too early to make those decisions and indeed we might not even need to adopt that process. It was too early to make those decisions, let me just develop and take Jules through my strategy of how we are going about winning. They were engaged, they thought they were engaged in the previous regime and were prepared to support, in any way necessary, that's why they were engaged. They wanted to know what their role was. I don't think they went into it thinking that this is not going to cost us anything.

They thought that we would have to make certain commitments to certain parties. I am sure that

was their intention but I never asked them to at any time, nor did I tell Kevin that I ever thought that was necessary. I don't know what happened after I left, but I didn't want, I was still unsure. The down select happened and then I left, it all happened within a month. When you are in the down select, the confidence you get from that process confirmed to me that I was on the right path and, BAE believed that I was on the right path.

L JONSON: Going back to the document 69, you and Niall are proposing it. I may have got this wrong but I thought you said yesterday that, until around the time you left, Niall would not have known about fee arrangements. He would have known who was involved but not prices.

A MCDONALD: Well, when we engaged Niall, he wanted to be given a managing director's role. He was engaged that he wanted to have the managing director's role and he came to me and said that he wanted to get a complete, because he was an ex-air force officer, but he wanted a complete grounding of all the territories that we participated in. I agreed with Niall that, on a discreet basis only, that he would get engaged in the complete spectrum but let's pick one particular consultant to deal with. So, I put him to deal with Jules and the message I gave him to tell Jules, it was a kind of test for Niall, was to tell Jules that we are coming down to 4% from 7%.

It is all about affordability, Niall, you are hearing what the air force is saying about price. He went and did the job and he came back and proposed, he first passed the message on and then I had to go and talk to Jules and talk to, but he proposed. This was part of his development. He was recruited, if you look at his, when we recruited him, he was recruited with the view to becoming managing director of a region.

L JONSON: Where is he now, is he still with the company?

A MCDONALD: Oh yes, I'm sure he is still with the company, very much.

L JONSON: The next page-

P PATERSON: Excuse the naïve civil lawyer's background but presumably, Allan, at some point Pelissier or Bredenkamp would have to sign off on an agreement on this because this is amending to their prejudice. So, lest we go back through-

A MCDONALD: Dickinson.

L JONSON: Sorry, we have got huge numbers of documents. I don't want to give you all of the details, we have agreements and we have got subsequent variations and amendments.

A MCDONALD: I have never seen any of that until it was brought and showed to me.

P PATERSON: I was just curious.

L JONSON: Of course. Okay, next page, which is DOCMAN 009-

A MCDONALD: Can I just say that there is a discipline you should know so this will help. They cannot put

forward a price on a proposal without Hugh having confirmed that what is assumed as the levy has been signed off. We could not go forward externally with a price. So, when we put an indicative price in for the down select, Hugh confirmed to me at that point that all the representatives had signed off to the level that I believed they were on at that point.

L JONSON: Right.

A MCDONALD: So, you see, when, for example, they put the final contract price in, Kevin could not go forward with that price under the protocol until Hugh confirmed that all the parties were signed up to those levies. There had been a past experience, well before my time, where they went forward with a price, they hadn't secured the agreement to come down and the agent demanded his previous price. There had been a discipline to ensure that at the time, the critical moment that we went external with the price to the customer, all the agreements would reflect what the pricing summary would say. It's just a discipline, so when we went forward with the down select, we would have been down to 17% signed off, as far as, Hugh would have given me that assurance.

L JONSON: It's DOCMan reference 00991100166. Have you seen this document before?

A MCDONALD: No, never.

L JONSON: Do you know, having looked at it and seen it, it appears to be signed by the same individual from

Saab that we were talking about earlier and his title is written down as marketing director. It is dated June 1997 and the SOU15 at the top is the code for Bredenkamp, for Kayswell. Can you shed any light on what his document actually, if you don't know then please say?

A MCDONALD: At that level, it can only be spares after the contract is signed. That's the only one I could think it could be. 'Up to a maximum of 10%', they are asking, 'Can we continue to be engaged?' What the agents would normally say is, once the initial contract is signed, we can help generate orders for spares, engines and all of that, so can we get our. I think, at that level, it must have been, I can only assume that. It would not have been for the prime product.

L JONSON: Do you think, and this is a question of obviously reading the document, do you think it is possible that this is Saab saying the whole of South Africa, the exposure for the Gripen cannot exceed a maximum of 10%?

A MCDONALD: No.

L JONSON: No.

A MCDONALD: I told them early on that it couldn't. I told the Saab people, when we first briefed them, that we couldn't manage it within 10% because the Hawk was way up at that level and we told them. We had to educate them about what was affordable. They might have put that in saying they would like it to up to 10% and I think that

might be where they come from but I would think that's more related to, when I see the date, 1997, let's clarify what the spares support is going to cost us afterwards.

L JONSON: Okay.

A MCDONALD: Maybe.

L JONSON: The next document is our page 72, 011828000004 and the following page 06, just the last two documents in our bundle. These are lists of people that we think were invited to the rugby by John Bredenkamp. Now, I appreciate that the Allan McDonald that is halfway down on the first page is not the right spelling of your name, it is 'LL' isn't it?

A MCDONALD: Yeah.

L JONSON: But it is on the second page. I was just really going to ask you did you ever attend the rugby with Mr Bredenkamp?

A MCDONALD: No, not as his guest but, when he was at, after the business was won, Eileen and I were at Murrayfield one day and he was about six seats back, him and Jules, and he came down and spoke to me. He invited me, John had invited me. He used to run a sports company, I can't recall what the name was.

L JONSON: Masters International.

A MCDONALD: Masters International, through that, and he had Ernie Els on his books at that time. He knew that I was a golfer and regularly he invited me to events but I never went. It wasn't that I was avoiding going. To be honest, if he was

inviting me to a sports event, I would have gone along. I was so busy that, if I had gone to a sporting event and not come home at that period of time, I would have had a divorce because I was so much out of the house then. I know that we saw him at the rugby, him and Jules, and his wife and his daughter, who was the one suffering from cancer, she was there as well.

L JONSON: Caron?

A MCDONALD: She's the artist, she was there as well and we chatted. She was fine and it was quite a pleasant exchange, but nothing. Jules told me what a great job I had done and he was sorry I left before it was all done. Jules was very complimentary. Jules Pelissier sends me a Christmas card every year and I never send him one but he sends me a Christmas card every year. I will go on record that there are communications between us but I don't return the Christmas card because I don't send Christmas cards. I send a general notice out that I donate to charity so don't expect a Christmas card from me!

L JONSON: Are you aware of any subcontracting agreements that were entered into by Bredenkamp or his company?

A MCDONALD: To other parties?

L JONSON: Yes.

A MCDONALD: No.

L JONSON: What would you have done had you found out that he was subcontracting services to other people?

A MCDONALD: Terminated our agreement, terminated our agreement.

L JONSON: Why?

A MCDONALD: Because I, wait a minute now, wait a minute. When you say 'subcontract'?

L JONSON: Okay, I will tell you what it is. We have seen evidence of a consultancy agreement between Kayswell, which is the Bredenkamp group of companies, and Kayswell, as far as this is concerned, only operate in relation to Hawk and Gripen in South Africa, that is why it was set up, we have seen evidence of a consultancy agreement between Kayswell and somebody called Muhammed Surtee, S-U-R-T-E-E. Now, we have also seen evidence of another consultancy agreement between a similar Bredenkamp company and somebody called Yusuf Surtee. Now, the consultancy agreement that we have seen simply says that the subcontracting party will provide services and it is very vague as to the type, the usual type of services. In fairness, I cannot remember whether or not it is signed by, one of them is signed and one isn't, as far as I can recall but the agreement was certainly drafted. Can you shed any light on either of these parties, why they might have entered into agreements in this respect?

A MCDONALD: Well, if this is who I think it is, do you know who these parties are?

L JONSON: I know of Yusuf Surtee because I did some research.

A MCDONALD: He is a lawyer. The one I know is a lawyer and he is President Mandela's lawyer.

L JONSON: Right.

A MCDONALD: Is that the same person?

L JONSON: There is a Yusuf Surtee called, 'The tailor.'

A MCDONALD: The tailor, that's the tailor.

L JONSON: Is he a lawyer as well?

A MCDONALD: His brother is a lawyer then, one of them is a lawyer.

L JONSON: Do you know what his brother's name is?

A MCDONALD: No, I don't. Yusuf Surtee is a tiny, small man. He makes suits, he makes Mandela's suits, you are quite right. I am mistaken, Yusuf Surtee is the guy that makes his suits and the big tall guy, they are both Indian, they are both South African Indian and the big tall guy is his lawyer but they are not related but are always together.

L JONSON: Mandela's lawyer?

A MCDONALD: Mandela's lawyer and Yusuf Surtee is-

L JONSON: Do you know why Yusuf Surtee would be entering into a consultancy agreement in relation to aerospace?

A MCDONALD: I think I put the blocks on this agreement. He came to me at one stage-

L JONSON: Who did?

A MCDONALD: Jules, telling me that the way that President Mandela does his business, conducted his business affairs was through on the legal side, a big tall guy, I forget his name but I can look, I don't keep records as such but-

L JONSON: I don't know.

A MCDONALD: Anyway, he is a big tall guy who was his lawyer. He is Indian and he represents him in his international, because, he would be on the website. Yusuf Surtee was his tailor but his tailor was also his businessman. He had looked after, Yusuf Surtee had looked after Mandela's family when Mandela was in Robben Prison, he was just benevolent towards his family. When he came out, he was rewarded with becoming not just his tailor but looking after all his small business stuff. He came and told me that they had access to the commercial arm of President Mandela, Jules was so excited about it. I said, 'Well, what good is that going to do us?'

L JONSON: Do you remember when that was?

A MCDONALD: That would have been 1996 or 1997.

L JONSON: Okay.

A MCDONALD: Yusuf Surtee developed a higher profile in this whole government to government business towards the end of the down select process, not with us but with other parties, companies.

L JONSON: Why would he be involved, I don't-?

A MCDONALD: Because they were all, you see, the chance to make, I think I told you earlier on, if you try to imagine the climate that everyone felt they had political enfranchisement but no economic enfranchisement. So, it was like vipers all around you trying to get cut into the deal. That's what made the whole process so difficult. There was a view that business, even, in fairness,

when I talked about the ministers, those ministers that had been brought up in what you might call a white enclave understood corporate governance much better than the ministers that had been out fighting a terrorist war. You needed to educate the black ministers, with all due respect, about what was good corporate governance and what was good protocol and what shouldn't be done. This sort of thing was good advice to be giving them. The other guys were already following what I would call good protocol or good practice but all the time and everywhere you went, everyone wanted to meet me and everyone was trying to get to me. He is the man that makes the decisions in British Aerospace, he is the man that makes the decisions in the German deal. So, everyone is trying to get you, offering services. I encouraged Jules to come back and offer me substantive ways of effecting a positive decision for us. We would see in our mapping process and when he was exposed to that he came up with some crazy, I think I mentioned earlier, he came up with some crazy suggestions. This, I recall, was one of his crazy suggestions, to engage the tailor.

L JONSON: But you say that Surtee, at a later stage, became quite important.

A MCDONALD: No, he became quite active, not important. I never saw him as important but I saw him with other, for instance, the Sandton Sun and Towers

hotel, which was where all the companies stayed, we used to see him. I used to see Yusuf Surtee, I was introduced to Yusuf Surtee once in the Sandton Sun and Towers just towards the end of the down select process, just as we were going into it. I can't think who introduced me but I bumped into him in the lift and was introduced to him. That's why I can describe him, he is a small man, the tailor to Mandela, he was in the newspapers a lot on how he has been rewarded so he was quite a well known figure down there. I was amazed because he was with the French or the Germans, he was with one of those parties when I was introduced to him and I am smiling because he had obviously, he wouldn't be representing Mandela, he was representing himself at that stage.

L JONSON: This is it, you've told us that Mandela actually, realistically had no influence, well, not influence but-

A MCDONALD: No engagement. This was all being driven by, because the contract was signed, if you remember, after Mandela left.

L JONSON: What would the French have been doing? Why would Surtee be a good person?

A MCDONALD: Why would the Germans give Mercedes cars to six or seven people that really had no say in the decision making process?

L JONSON: Because they had no-

A MCDONALD: Because they were not, people were down in Africa, this was the first time really that

anyone had introduced a competitive, I am not talking about us, I am talking about the government, had ever introduced a government to government arrangement, contracted offset right across the complete spectrum of your armed forces. This was the first time in that environment that this had ever happened and you have all the old guys coming in with all the old methods from every company, trying to buy the deal. The thing that made us different, we helped engineer the establishment of that process, not the Germans, not the French, not the Italians. The British government, with support from British Aerospace, helped put in a government to government concept of competitive tendering down select. We sold that whole concept down to them, so we were much more engaged at a professional level than the rest of them, who were coming in and doing the most stupid things.

Yusuf Surtee was proposed by Jules as a great contact and I wanted him to tell me why and he couldn't. I said that I would not support any arrangement.

L JONSON: When you say that he couldn't, did he even make any attempt to say why he thought he was important.

A MCDONALD: He was close to Mandela.

L JONSON: What did you say?

A MCDONALD: Is President Mandela sitting on the recommendation committee that is going to go to

the main cabinet, is he sitting there? Because if we don't get that committee onside, it won't go to the main cabinet and in the main cabinet there will be a decision and it will go to parliament. So, he said, 'I'm only trying to help Allan.' I said, 'Jules, that's no help to me.'

L JONSON: Right, so you think that was in 1996.

A MCDONALD: 1996 or 1997, before the-

L JONSON: I will get the date checked.

A MCDONALD: It was probably more 1997 or 1998 when I think about it, later in the process. It was more towards 1997 or 1998, around that period. It wasn't 1996 when I think about it because I wasn't even engaged with Jules at that level. Jules was then really into our mapping planning process by that time so it must have been 1997 or 1998. He was really into it, he was coming up with all these crazy people who I should shake hands with. In fairness, as I said earlier, they were trying their very best to come up with it. He thought it was impressive that he had access to the tailor, he thought I would be impressed with this.

L JONSON: Do you know how he got access to the tailor?

A MCDONALD: Jules got access to anything he wanted. Jules could get under the bed of Harold Wilson if he wanted to, which the rumour was that he did. Jules could get access to anyone. I don't know what you are, in all my time in dealing with him, I found him, I mean, he has worked in the

intelligence world, he has worked in Africa, a very difficult world but of all the honest and straightforward relationships I had, I had that with Jules Pelissier.

He was a straightforward talker, frank and blunt. He said to me, for example, he said to me, 'You are too accommodating to the blacks Allan.' He said, 'You see them, you give them your jacket and let me tell you as soon as they have your jacket, they will have their eyes on your trousers.' I would say, in terms of when it came down to it, he was exactly right in terms of the people we were dealing with. They always wanted more, always wanted more. In fairness, so did Richard Charter, who is white South African but it was always about more, more and more. He read the personalities better than most.

L JONSON: When you said they wanted more and more, can you expand on that? In what sense, more money?

A MCDONALD: Well, for example, when we talked to Doctor Mji, who we mentioned yesterday, when I came forward with a proposal as to what would be a good non-executive salary, which I had done my research on, he was very unhappy with that. He thought it should be two or three times more. He had unrealistic expectations of what a non-executive should get paid because as soon as he saw someone from one of the big international corporations, he would want more. When we were sitting down negotiating about black empowerment

about who could represent us in the ATE board, they always wanted much more than was realistic. There was always this expectation way beyond what was deliverable.

L JONSON: Do you think this translated into government as well? Do you think there was a mindset of people wanting more there?

A MCDONALD: I think in a general sense, if you ask me about in general in South Africa, across the whole spectrum, including government people, on top of black people who felt that they had the political empowerment and now needed to get the economic empowerment and it's the whites who control it so let's get as much as we can out of them, that's what black empowerment really meant. Let's exercise the new regime to extract as much value back into black empowerment. You know, black empowerment discussions about having to incorporate or give them 10% of the company without them having to pay anything, they wanted 20% when the recommendations on black empowerment would be 10%.

I was privy to all the discussions, it was Niall and Stuart or Andy Humphreys who would be leading all the discussions about what companies we would take a participation in. So, we were talking to people like ATE, we will take a stake and one of our costs of doing so would be to give a black empowerment element to that, showing that we were buying into the spirit of black empowerment. We were effectively paying a

premium on the price for our equity in ATE. When I see or any of the blacks that I would talk to, here is an opportunity to sit on the board and get a non-executive salary. For effectively us buying into black empowerment, you would find that the demands they wanted for that job were way way over the top. So, it was, I was just saying that my experience at first was to want to be of great empathy with what was being done in Africa, southern Africa, and to try to have black empowerment and offset and expand industry. I got a bit more cynical as I got through because I realised that-

L JONSON: Yeah, that's the thing, we get back to what Gary said yesterday. You've got the French, who are prepared to offer inducements, you've got the Germans who were caught doing it and you've got, realistically, the main bidders offering inducements. When you have got that kind of culture, when people do want more, is it, do you think that, and this is not a criticism at all, you are a bit naïve to think that, not that you knew, inducements weren't being offered behind the scenes?

A MCDONALD: I think the view would be that I was naïve in my whole approach.

L JONSON: Looking back on it now.

A MCDONALD: I believe that I was vindicated when we did the down select that I wasn't naïve.

L JONSON: However, do you think that, we did deal with it this morning, do you think it's possible you

just simply don't know? As well as your bid, perhaps being the best bid, but because of the culture and the way that industry works and the way that the other bidders were prepared to do it as well, do you think that it is quite possible that backhanders were-?

A MCDONALD: Let me tell you what I think was possible. It's just an opinion, not based on any facts.

L JONSON: Sure.

A MCDONALD: This is what I think probably happened. I think that we went through a process that we started off and we won it very professionally, so all plaudits to British Aerospace and to the support of the British government. There were serious sums of commissions going to emerge as a result of that decision and I believe that, with my demise, some of the key players, agents who understood the process much better, because Niall wasn't given a promotion, Stuart wasn't given a promotion, Richard Charter was marginalised, I think that some of the key guys will have put over to British Aerospace how influential they were going to be in the final decision.

They will have taken advantage of my demise and jumped on the bandwagon and made big play to Kevin about what they could and could not do. I think Kevin will, to some extent, have gone along with that. If you ask me, at the end of the day, it would not surprise me at all if there was some engagement, some financial

engagement of some parties in South Africa to help win this business but the scale of it would be nothing like the sort of rewards. Normally, the thing would work out in terms of what you always understood was that if you engaged an agent-

L JONSON: I'm going to pause you there. I would like to take this slowly. So 45 minutes on the clock, the time is 11.46am and we are turning the tapes off.

(End of Tape 10)

TRANSCRIPT OF INTERVIEW HELD AT TODS MURRAY LLP, SOLICITORS,
EDINBURGH QUAY, 133 FOUNTAINBRIDGE ROAD, EDINBURGH EH3 9AG ON
WEDNESDAY, 15TH AUGUST 2007.

CASE REFERENCE RLI02

TAPE 11 OF A BATCH OF 14

PERSON BEING INTERVIEWED: MR ALLAN MCDONALD

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MR PETER PATERSON	-	SOLICITOR

B SMITHWHITE: This is the start of tape 11 of the Section 2
interview with Mr McDonald. The time by my
watch is 12.13pm, we just had a short break
there. Please can you confirm, Mr McDonald,
that we have not discussed any matters relating
to this case during the interval since the end
of the previous tape.

A MCDONALD: I can confirm that is so and we are still all
present.

B SMITHWHITE: Thank you.

L JONSON: Mr McDonald, in the break, I provided you with
two sets of documents as staged disclosure in
this particular interview. The first one, that

RLI296

Corrected Transcript

I can identify by document number 012519000409 and that is a four-page document, which is an agreement between two parties: Muhammed Surtee and Kayswell Services Ltd. It is signed on 28th February 2000 by Muhammed Surtee and what appears to be Jules Pelissier, on behalf of Kayswell Services. Just for the benefit of the tape, the agreement is a consultancy agreement, with Kayswell as the client, engaging Muhammed Surtee as a consultant to provide certain services, which include advising on business opportunities in South Africa and providing market and commercial intelligence. The term of the agreement is such that it commenced, is backdated to have commenced on 1st January 1998 and the fee is to be agreed.

For the benefit of the tape, somebody has just entered the room with some sandwiches.

G MURPHY: Are you happy that you've had enough time to look at that document and answer questions on it?

A MCDONALD: Yes, if I can.

L JONSON: Do you know who Muhammed Surtee is?

A MCDONALD: No, I don't know who Muhammed Surtee is. I don't know if he is any relation to Yusuf Surtee, who I understand to be the tailor that looked after President Mandela's interests when he was in Robben Island and produces all these famous shirts today and has become, I understand, President Mandela's commercial representative for small activities.

L JONSON: Bearing in mind the conversations you had with Jules Pelissier back in 1997 and 1998, having seen this document, had you known of its existence when you were still employed at British Aerospace, what would you, firstly, are you surprised to see this document?

A MCDONALD: Yes, if that document, if the sort of services that are being defined there were viewed to be involved with the Hawk and Gripen, I would be surprised that those services were needed.

L JONSON: As far as you were concerned, did you have any idea that Kayswell, or the people involved in it, were using further consultants if you see what I mean?

A MCDONALD: I would refer to inappropriate for Kayswell to engage consultants that we would have engaged to do our work. Then, you are just paying Peter to pay Paul. In the context of that, I am not surprised that they might, in exercising what they consider to be good ways of positively advancing causes that they support-

L JONSON: By that, you mean?

A MCDONALD: I mean the causes, you see that it talks about four contracts. They had a number of business opportunities going on in South Africa, not just Gripen and Hawk but others and I would not be surprised to think that they might feel that people of influence who have the ear of decision makers might be useful people to engage as consultants and pay them consultant fees to help put positive signals or messages in key decision

makers' heads. That would be something that we would understand consultants to do.

L JONSON: Would you have any concerns about this contract had you discovered it when you were in the post? If you had stayed on until after the contract was signed and became effective and you then discovered that Kayswell had this consultancy agreement, what would you have done?

A MCDONALD: The difficulty I had when I was involved in the defence marketing is that I wanted to know much more than the company encouraged you to ask questions about. We would have come to a point, probably before that contract, where, either I would have been instructed to back off asking these questions or my style would have prevailed. But we never got to that position. If I had been told to back off, if I had acceded to requests not to explore these avenues, then I would not have been uncomfortable with that sort of agreement.

But, if I had been successful in saying that I wanted to control this whole process, then I would have been very uncomfortable with that sort of agreement. That could have prejudiced, if such an agreement had been disclosed, it could have prejudiced what I felt was a very well managed and well conducted campaign across a complete spectrum to be prejudiced by one agreement, that could come back to us and would have done great damage.

L JONSON: Do you know that it's a term of an adviser's

agreement not to subcontract any part of that particular agreement?

A MCDONALD: No.

L JONSON: You didn't know that?

A MCDONALD: I did not know that, I did not know that.

L JONSON: Certainly, the Red Diamond agreements, which are the covert agreements, there is a clause in that, I don't think we have a model with you, oh, we do. No, that will be the first BAE agreement, there's a different format to the Red Diamond one.

P PATERSON: That's the BAE one but that says the same thing.

L JONSON: Ah, in which case, from the very beginning, there is a clause in which the adviser confirms that he will not subcontract any part of the agreement.

P PATERSON: It is page 52, paragraph 6. It says, 'It is understood and agreed that your appointment reflects the particular expertise at this time and that you shall not be entitled to assign this agreement or without agreement, with another company to delegate your duties there under. The company reserves the right to terminate with immediate notice etc.'

L JONSON: Thank you.

A MCDONALD: I think what that means is any assignment of the complete responsibility or partial responsibility to third parties would be frowned upon.

L JONSON: Would you not consider this to be?

A MCDONALD: No, I would have considered that to be an

execution of, that's them finding a vehicle to provide information. That's providing the contractual background for them to get information of a contact they have got. They are using that consultancy agreement simply as a way of legitimising or having a formal agreement in place to say you are required to provide us with intelligence and information.

L JONSON: Okay, I am not going to ask any more in relation to that because-

A MCDONALD: I have never seen it.

L JONSON: You have never seen it. The second document that I handed to you and your representative doesn't have a DOCMAN number because it's only recently been received by the office. So, I will try and describe it. It's a memorandum to 'JAB', who we know to be John Arnold Bredenkamp, from 'JCMP', Jules Charles Marius Pelissier, dated 13th July 2000. It is entitled, 'Budget presentation.' What this appears to be is a memorandum to Mr Bredenkamp from Mr Pelissier expressing some concerns about the failure of the Bredenkamp company structure to pay both Mr Pelissier and Mr Wilmans a bonus as a result of their successful participation in the Hawk/Gripen contract. Do you agree with that?

A MCDONALD: Yes, I agree.

L JONSON: What I would just like to ask you is in relation to the first page and the sentence starts with, 'The second reason advanced..' Can you see that sentence, it's about 10 lines up from the

bottom?

A MCDONALD: Yes.

L JONSON: 'The second reason advanced that JCMP and TJW have done nothing exceptional and have merely been managing a process...' To put this in context, these are comments by other company directors that Mr Pelissier and Mr Wilmans should not receive a bonus, i.e. they have done nothing exceptional and have merely been managing a process. Pelissier then goes on to say: 'I find it extraordinary coming from people who have no involvement and therefore no knowledge whatsoever of the inputs and activities over a period of four years in a ruthlessly competitive market, incorporating both first world and third world procedures, towering egos of all the key players and continuous rival attempts to undermine our position as representatives.' He carries on. Having seen that document, is there anything in particular about his use of language that stands out to you?

A MCDONALD: In that particular piece that you have just read, I think it verifies, what Jules is positioning himself there is that there was a very complicated and sophisticated process of business winning going on and they were very much engaged in it. Whoever has made the comment has no concept of how challenging and demanding that was. I think that, 'No knowledge whatsoever of the inputs and activities over a

period of four years in a ruthlessly competitive market', which it was, 'Incorporating both first world and third world procedures.'

L JONSON: What does that mean?

A MCDONALD: I think this is what we have been discussing all along. The first world procedures are, 'Let's go through this on a very competitive tendering basis, let's not do anything that would prejudice that result.' Third world procedures are where you have a whole clamouring of people wanting to see, third world, which I would say is what you would see in Zimbabwe in terms of how to win. So, in business winning, you've got two conflicts of first world business winning versus third world business winning.

L JONSON: Certainly, but you can see what he is saying is that the process incorporated both first world and third world procedures, not incorporating first world instead of third world procedures. Do you see the difference in terminology?

A MCDONALD: Yeah and it was something that I was discussing with Peter. If you just look, the key, up to the down select, the down select was all about picking the equipment and putting a message down of the degree of offset that you would be prepared to provide in to the country against that down select. That was about getting the product selected through the user requirement and also giving a projection of what the price might be and what the economic benefits might be.

Then you go onto the process of contracting price agreement and offset. Now, everyone is doing that across the spectrum until down select but the biggest and most important decision then was who figures first, second, third, fourth or fifth in the allocation. It is the validation of the contract, so the period after the contracts were all signed, I think if you look at the history, they were all signed, I think British Aerospace was one of the last to be signed in November or December, but everyone of the sheets had been signed before. Then, the next six months were critical and that is when most influence would be required to get priority allocation to your contract being confirmed.

L JONSON: Right, this was after you had gone.

A MCDONALD: This was the period of time that we are looking at. To my mind, as I said, it would not surprise me if some third world procedures, if you want to use their language, were used to close the contract, possibly, but certainly, probably to accelerate the award of the contract ahead of other parties because that would have been opportune.

L JONSON: Right.

A MCDONALD: I would say that this memo also confirms to me that the scale of reward that stayed with the shareholders was not distributed down.

L JONSON: Absolutely.

A MCDONALD: My understanding, listening to the evidence that you presented to me all along, is that it would

seem that we didn't have to engage serious third world procedures. We did not, in winning this business, have to engage seriously and the benefits stayed with the shareholders of the agents. When you read the second page, if you look at that, the second paragraph, 'This was a unique achievement and will not be repeated in my working lifetime. In effect, it represents \$18 million for the majority shareholder and \$3 million each for the minority shareholders.', and the previous page tells you that there were four of them.

L JONSON: Yes, there are four of them and one major. Pelissier is one of the minor shareholders.

A MCDONALD: So, there is \$30 million staying with the shareholders. Now, we said the total value that they received would be €40 million was it?

L JONSON: Basically, the way the company Kayswell was set up is that Bredenkamp retains control of 60% and Pelissier, Passaportis, Wilmans and this guy Hailwax each receive 10%. I think that's what he is complaining about, that he and Wilmans did quite a lot of the work on this and therefore, why should he not get a bonus out of it because Passaportis and Hailwax did nothing. Of course, the money was split in that way and the majority went to Bredenkamp and he, despite the work that he may have done, received his usual 10%.

G MURPHY: That still leaves \$10 million unaccounted.

P PATERSON: Can I just come in. I think Allan is saying that, just to be clear about it, if you take the

total sums that are distributed by Kayswell, it comes to about \$30 million.

A MCDONALD: Dollars.

P PATERSON: Dollars, which in those times, for the simple sake of arithmetic, would equate to about £20 million. Of course, as we know, the payments were made in two tranches.

L JONSON: The payments were made over a long period of time, more than two.

P PATERSON: The point being at that point, you had £20 million paid.

L JONSON: Yeah, so you've got, even though €40 million came through to the company-

P PATERSON: The timing.

A MCDONALD: The second part of the contract was not legalised until after 2003 or 2002, the second part, so you couldn't assume at that stage that, this, I believe was written. I am not trying to be unhelpful, I am trying to be as helpful as I can to you. My general view is that these boys pocketed it all and if they paid out, they paid very little and it was the stupidity of us not staying close to the whole process, as someone said yesterday, to blow that level of profit just to give it away when there was no material benefit gained, to my mind, was part of the mismanagement of the whole thing.

P PATERSON: What we don't know is how much was paid by the time of that memo but it may be that that £20 million accounts for most of what was actually paid to Kayswell at that moment.

A MCDONALD: Peter, the payment that the government made to British Aerospace was not reflected in the payments that BAE made to the consultants because you see that in one of the other documents that there were, some of them were paid over a very long period of time, which is confirmed in this memo. It takes a long period of time.

L JONSON: Generally, while they were paid on a milestone basis. When the company got money through from the government-

A MCDONALD: This year, if you remember, it was milestone number, there were two major milestones, where one part of the contract, particularly on Gripen, became confirmed. It was about two years or three years, I don't know, I could find it but two or three years after this, the contract was validated.

L JONSON: Right.

A MCDONALD: So, by the time of writing this memo, the only assuery you had was that they were going to get, it seems to me, \$30 million from the deal.

G MURPHY: At the time of writing that memo, 13th July 2000, only £1.6 million had been paid to Kayswell.

A MCDONALD: I think what they were saying, based on what was contracted, what I read what was contracted, they was going to be a \$30 million gain and under the shareholders' agreement, this was how it was going to be distributed. That's what I read like that. But he says that it represents

for the majority share holder and for each of the minority shareholders, \$18 million and \$30 million but that would be less expenses, I mean that would be after expenses. It seems to me that they have already got it in their heads that they are pocketing this themselves. I think that, somewhere along the line, these boys have been smart enough to fool Aerospace into still thinking that they were heavily engaged in the distribution of funds to the South Africans when they in fact didn't.

If you said to me, I have no idea what happened in the end, I have no idea who benefited. When you show me that agreement with Surtee, I think there has been some facilitation going on but when you see the way, just thinking about the way they treat their people in terms of salaries, after one of the most successful campaigns and bonuses, and they talk about the salary level they are getting paid, it seems to me that they are very picky over giving out any money and it's all about retaining as much as they can for themselves.

L JONSON: Well, they are businessmen, that wouldn't really surprise me but-

A MCDONALD: Well, what surprised me about this memo, if I may say, in general, was that Jules is 100% right. I don't think that, from British Aerospace perspective, that Jules or Trevor contributed any serious value to winning the business, in my opinion. But, in terms of

effort, I could not fault them, in terms of trying to put quality effort into trying to support us but their contributions were not significant, not really any help to us business winning. When you see Passaportis, I don't know who the other guy is, they are receiving this degree of reward, Jules' salary is so little really in comparison. I think there is some-

L JONSON: There may be a legitimate complaint.

A MCDONALD: The complaint is legitimate but, but-

L JONSON: My concern, well, what I wanted you to comment on was specifically what I have already asked you about, which was his language about incorporating both first world and third world procedures. From what you said, might appear to be in line with what you said.

A MCDONALD: I would not be at all surprised, at the contract closing stage and at the contract award stage of who was confirmed as the first signed contract, that they might believe or present that they could influence that and indeed do it. But the sums involved, let me tell you, in terms of, the major decisions had been made if you think about it. At that stage, the major decisions had been made and they would have paid out very little. I think what's happening, and when I see it now I am smiling, they have made so many attempts to contact me since I left and I have never returned, the only time I bumped into them was at the rugby, I have never made any contact with them since I left. They were so, Jules was so

complimentary to me at the rugby, I'm sitting here smiling now, thinking that the windfall that these boys have got and, unlike the previous contracts, have not had, I was going to say it earlier before the end of the tape, the understanding was that they would have to pay out up to 70%, a good agent would retain about 30%. That was always the understanding in Aerospace, if you engage an agent, the most that he would probably have to commit up to 70%.

L JONSON:

Who said that to you?

A MCDONALD:

Nobody ever said it and I could never pin it down but if you just said to me what was my understanding and what was the general understanding at the senior level, the understanding would be that an agent would make 30% because of his costs and all sorts. A lot of these guys funded their own. I mean, Bredenkamp paid the salaries of all these people. He paid for salaries so there is a cost element there. So, we always expected that they, a good agent, would make 30% on any transaction and would have to pass out 70%. That's just a general feel to the way it was and I couldn't legitimately attribute that to any single person in the company but that would be my general view of things.

If you say to me that they had, this totals up to \$30 million, I would have thought that if he saved \$10 million, he would have done well with \$20 million paid out. It seems to me that they

have just taken us to the cleaners, taken British Aerospace to the cleaners in this whole deal.

L JONSON: Okay.

A MCDONALD: If you are saying to me do I believe that, when I see this agreement of 2000, just to provide legitimacy to their position, they might have done some small deals with people. Bear in mind that they are not being asked any questions.

L JONSON: No.

A MCDONALD: The one guy that was asking questions disappeared. The one person that wanted to know more disappeared. I don't believe that they were asked, I have yet to see.

L JONSON: Can I just ask, before we move away from Kayswell, you talked about the Zimbabwe deal and it's not to go back again, but could you, you say that you knew that the Zimbabwe deal, I think your words yesterday were that it was a bought deal-

A MCDONALD: We, I understood that, I didn't know.

L JONSON: How did you understand that to be the position?

A MCDONALD: Robbie Roberts told me.

L JONSON: Robbie told you.

A MCDONALD: Robbie told me the levels of commission that Bredenkamp got and he told me about, he was boastful about the whole process and he said there had to pay considerable amounts out to, ultimately, he said, the president. Robbie Roberts shared that with me.

L JONSON: That would have been Mugabe?

A MCDONALD: Yes, yes.

L JONSON: It was before sanctions I presume?

A MCDONALD: Yes, yes, about 10 years prior.

G MURPHY: Was Robbie involved in that deal, from a British Aerospace-?

A MCDONALD: Yes, he was in that.

L JONSON: Where is he now?

A MCDONALD: I don't know where Robbie would be today, I mean I don't know if he is out there, I would be surprised if he was alive, knowing Robbie. He could be, he was one of these old soldier types.

G MURPHY: How old was he then?

A MCDONALD: He was just 64, he was retiring at that stage. That would be 10 years ago now, he would be 74. He was a smoker and a drinker but you never know.

L JONSON: You never know.

A MCDONALD: He left within a year of me taking over so he knows very little about-

L JONSON: He'd be more about Zimbabwe really. Great, okay, well, that's it from me for Kayswell for the moment. Gary.

G MURPHY: Okay let's move on to Mr Hersov, Basil Hersov, who you did mention yesterday. If we could turn to, I think you have a tab in your file, FTNSA, which was the company Basil Hersov used as his vehicle for funds.

P PATERSON: Which page number is that?

G MURPHY: It is page 8. Just refresh our memories again, I think you said it was Dick Evans that mentioned to you or brought to your attention

about the agreement of Basil Hersov.

A MCDONALD: He introduced me to Basil Hersov. Basil Hersov was visiting the offices in London, not the Farnborough offices, and I was asked to come down and I was introduced to Basil. After he had gone, I was then told that there was an agreement with him that anything that went on in southern Africa, southern as opposed to just South, he was to be a beneficiary and that he was to be incorporated into this deal at the fee level that we incorporated him into. It was already pre-determined and it was only later on that I found out the reasons why when I asked Turner. Dick was one guy you never really questioned but I asked why this was so and I was told the story about George Carmen being engaged to sue British Aerospace because he had lost the 125 deal and it had been given to Richard Charter. Coming out of that, he got a financial settlement and an agreement that he would be a beneficiary in every other contract we won.

G MURPHY: Right, so this was given to you as a done deal, that's what you've got to do.

A MCDONALD: A done deal.

L JONSON: You said that Hersov himself had threatened, well, threatened or made veiled threats to expose British Aerospace.

A MCDONALD: I was told that the reason we settled out of court was-

L JONSON: Right, who told you?

A MCDONALD: I was told by Mike Turner that the reason we

settled out of court was because Hersov had threatened. In fairness, this could have been Sid Gillibrand. I think it was Mike Turner but it could have been Sid Gillibrand that told me that, who was the deputy chairman but that was. Sid was still around at the time and he was always a great adviser to me, he was a great fan of mine so when I had some complex issues, I used to go and talk to him about it. He had disappeared from the scene before we got to critical matters with South Africa but early on, because he encouraged me to come down and do the job. He was, when I was writing the marketing plan, he was the guy I was reporting to but then he retired not long after that.

L JONSON: Okay, it's either him or Turner that said it.

A MCDONALD: It was him or Turner that explained to me, Dick didn't but it was either him or Turner that explained to me the background and had said that Basil Hersov had threatened British Aerospace. When you meet Basil, as I did on a couple of occasions later, two or three times I visited him in South Africa, he is quite a small man but quite imposing, almost directional in terms of what he wants to happen and not really conversational.

G MURPHY: What nationality is he?

A MCDONALD: South African.

G MURPHY: He is South African.

A MCDONALD: Seriously South African. Anglovaal is it, he is the Chairman of Anglovaal. The story down there

is that he had a partner who he ousted brutally. He doesn't have a great business reputation in South Africa in terms of amicable business, he is not well regarded in terms of business down there, he is very brutal and very ruthless in his business process apparently.

G MURPHY:

Okay, if we look at page 80, this is-

A MCDONALD:

Can I just say that, this may not be helpful at all but just let me say that, outside of South Africa, I have developed a very strong friendship with a family that was in South Africa for many years, not at all to do with aviation and all that. They live in Scotland and their children go to the same school as mine and one of the best friends of my friend is a South African. By pure coincidence, Basil Hersov's daughter, whom I met in my friend's house about three years ago at a Christmas party and it was only after she left that I realised she was the daughter of Basil Hersov, her husband had just died. He was a young Scottish guy and he died, and he had an attack. He was in a game farm, went for a run and came back and had a fit and died in the tub. Now, my friend's friend tried to resuscitate him, spent about an hour and a half trying to resuscitate him, took care of everything, phoned Basil, Basil flew in by helicopter to his daughter and his two grandchildren and left the body. My friend's friend, who is there on holiday, spends the next 40 hours organising

everything, collects all his personal gear, takes it back to Basil's office. Basil doesn't want to see him as he is too busy. He leaves the office, goes back home and 40 hours later he gets a phone call from Basil to say that the guy had a set of binoculars that were really expensive and where was it. Not 'Thanks for looking after my daughter', not 'Thanks for taking care of everything' but 'Where's the binoculars?' This friend of my friend put the phone down and didn't even reply to him. I tell you that story as a good indication of the measure of this man. That will just, he is pretty brutal.

L JONSON: What were his contacts in South Africa in terms of, I know that, as far as you were concerned, he did absolutely nothing?

A MCDONALD: In the previous old, white, regime, his company was a very powerful company. I know from discussion with what I would call, I was given some exposure to the young advisers that Thabo used, Fana and others, they did not hold Basil in regard at all. He was not held by the new government in any high regard so my view was, if that's the view of the lieutenants, what will Thabo think or what will President Mandela think? I don't think, and Joe Modise had no time for him, Stella Sigcau had no time for him, so I don't believe that Basil had any influence over the decision making whatsoever.

L JONSON: I will let Gary carry on as he will probably

take you through that document unless there are some things related to that that are a bit more interesting.

G MURPHY: Page 80, document reference 009915000154 is the proposal for the appointment of FTNSA Consulting, which, as we have just discussed, is Basil Hersov. This particular document is dated 19th June 1992 and we can see that on page 84 in our pack. Going back to page 80 though, we have got FTNSA Consulting, care of a Mr James Clark. Is that a name you were ever aware of?

A MCDONALD: Never came across that name, never.

G MURPHY: No.

A MCDONALD: The only people I ever met, I actually met Richard Friedman and Basil Hersov. I met Richard, he was his partner, when we went to visit him and he was given as a point of contact if we wanted any action to support anything we were doing. I told both Stuart McIntyre and Niall, if they wanted anything done with this team, to contact Richard Friedman. You would have to ask them but I don't think they ever requested anything because we never found anything for them to do for us.

L JONSON: You never requested them to do anything.

A MCDONALD: Never, I used to go to Basil, I think I visited him three times just at the time of the renewal, just to see if he knew any intelligence but he never shared anything of value with me. It was pleasant exchange and talk about what was going

on in the country but he seemed to know very little about what was going on.

G MURPHY: Right, so where was Richard Friedman based?

A MCDONALD: He had an office alongside Basil Hersov, at that time.

G MURPHY: Okay.

A MCDONALD: Basil had two offices, he had the Anglovaal headquarters but Richard Friedman wasn't there. He also had offices out in Sandton, next to Richard Friedman, so they shared offices, a small office arrangement there. Basil's Anglovaal was right in the middle of Johannesburg.

G MURPHY: Was it possible that Richard Friedman, it's Friedman by the way, was the one with the higher level contacts and not Basil at all?

A MCDONALD: No, Richard Friedman was like, the way Basil treated Richard, spoke to Richard in our presence was almost derogatory. So, Richard was on the coat tails of Basil. He was his executioner and was not a man of any influence in my view.

G MURPHY: If we can go to page 81, we have got here, it shows the proposals for Hawk at 1%. Do you know how that 1% was arrived at and I appreciate this is before your time?

A MCDONALD: I understand that he had a general agreement that he would get this level of commission from the outset. He tried to negotiate more, Basil, saying that he had all sorts of contacts but I understand in the final agreement that was made,

and if there is any way you could track back on what that agreement was, I think that he was legally entitled to that. My understanding was that he had a legal entitlement to this and there was nothing I could do about it.

G MURPHY: Right.

A MCDONALD: So, I just accepted it as a penalty cost throughout my whole programme.

G MURPHY: The fact that it actually says on this page 81 that it is 1% for Hawk, it's rubbish is it? He was never going to do any work for Hawk.

A MCDONALD: No, I think what happened was, let me just think how the British Aerospace process might work in this regard, they would have a general agreement that says any work that we do in southern Africa in the future, because of the way that we have treated you, you will get 1% of any work we do down there. What this does is legitimises it to the Hawk programme. This brings it into the Hawk dimension. He's got a general 1% agreement, now let's particularise it and put it into Hawk and we did the same in Gripen later on. What it did-

L JONSON: It matters not if he worked or not as he was going to get the 1% anyway.

A MCDONALD: Oh, he was a penalty from day one. I was talking about pricing, when I said I inherited these, he was a non-contributor from day one. They tried to say, they tried to bring legitimacy by saying that he was well connected down there. How do they know he is well

connected, they have never visited the country? How do they know what he was capable of doing? These guys are telling me, Dick and Mike but the truth of the matter is this was a commercial settlement from a deal going back way before I got involved in the company. They harnessed the South African defence contract with a 1% penalty from day one to satisfy him.

So we are clear, I put Basil under pressure and Richard Friedman to do things. I put them to, and he would tell me about that Thabo had been at this conference and he would tell me what Thabo was doing and things were going on, sharing some general information that, if you were in the business financial world, you would know anyway. Do you know what I mean? Like, if you are in the City, you get City-type information. He would share that with me and he felt that was his contribution to the process. I just said, 'Okay.' I kept relationships civil, I did not want him, I just kept the relationship civil. If it had been me, and I told Kevin this at the time we needed to get down in the prices, I would have looked at every legal vehicle we had to get out of that agreement.

G MURPHY: Right

A MCDONALD: I suggested that because there was a new government. You see, that was the government of RSA. I think the previous agreement, not this one, was put in place at the time of the old

apartheid government.

- G MURPHY: The previous agreement, if we go to page 83 of the agreement, right at the bottom there, it says, 'Details already held under first agreement, Placo.'
- A MCDONALD: No, that's 125, that's the BAE 125, which is a Hawk jet agreement that he sold.
- G MURPHY: 125, sorry.
- L JONSON: We all thought so at first but now-
- A MCDONALD: It's the BAE 125 corporate jet and that's what he was contracted to. That was the corporate jet that he sold in South Africa. He was ousted by Richard Charter, he sued the company and that's there, 'Details already under the BAE 125.'
- G MURPHY: It's interesting because if we-
- A MCDONALD: That's Placo, that's obviously what they mean. It was called Placo.
- G MURPHY: If we go up to paragraph 16, it says, 'This is an agreement which MJ Turner supported when he was EVP. The principle player is Basil Hersov, see attached.' We haven't got any attached.
- L JONSON: It was a CV.
- G MURPHY: Oh, was it? Fine. 'It is considered that he can play an important role as high-level adviser with government and this should still apply after black rule is in place because of his high standing.' Do you agree with that?
- A MCDONALD: Absolutely not. Someone is dictating this.
- L JONSON: Someone signed it, I think that was going to be your next question.

G MURPHY: Yeah.

A MCDONALD: Jerry Wooding, is that Jerry Wooding's signature?

G MURPHY: Jerry, we have actually got it confirmed-

A MCDONALD: That's Roberts.

G MURPHY: No, that's 'A Roberts.'

A MCDONALD: Robbie Roberts is A Roberts.

G MURPHY: He is, is he?

A MCDONALD: That's why you might have asked me earlier about it but this is Robbie Roberts.

G MURPHY: Okay, what was his real name then?

A MCDONALD: That would be A.

G MURPHY: You don't know whether he was an Anthony or-

A MCDONALD: No, no, it's in the company records. All one ever knew him as was Robbie. If you said to him that those were his initials, I see there his title, 'VP Africa', which tells me that's who it is. So, he is Robbie Roberts. Do you think he has written this?

L JONSON: Yeah, I think if you look at his handwriting, to me it looks like the same handwriting.

G MURPHY: Yeah.

L JONSON: Then it's been, do you remember we talked about Jerry Wooding's signature earlier? That is Jerry Wooding's signature.

A MCDONALD: That is Jerry Wooding's signature, 'JM Wooding.'

P PATERSON: The 'A' in 'Africa' looks the same.

G MURPHY: Right, okay.

A MCDONALD: First of all, Robbie Roberts knew nobody in the new government, nobody. He never met Joe, never met Stella, knew nobody. So, he couldn't

introduce me to anyone in the new government, so how he can talk about, 'After black rule is in place', how he can make that statement is a load of rubbish. To me, maybe Basil is saying this. This is Basil. BAE was gullible in terms of listening, 'top man', 'Anglovaal', 'I sued you, I get George Carmen, you play it my way.' He could be believed very easily. You see, when somebody says, 'Overpowering egos', I am talking about Jules Pelissier's memo, powerful egos undermining by, I mean Richard Charter was undermining their involvement every day.

L JONSON: Do you think that's what he means when he says, 'Overpowering egos.'?

A MCDONALD: Yes. By overpowering egos I mean that many of the personalities that were in this whole campaign, and Richard Charter has a powering ego, Basil has a powering ego, you know? Most do, the chief of the air force. The one think about Afrikaans is massive egos and the one thing about many of the ministers all positioning for places developing powerful egos. So, it was a big environment for it and I suppose he meant me as well. I don't know if he meant me.

L JONSON: I don't know what he meant. Obviously, it says there that Mike Turner supported it when he was EVP. Now, you've already said that Dick Evans introduced you to him.

A MCDONALD: It was Mike that explained the background, it wasn't Sid.

L JONSON: It wasn't Sid.

A MCDONALD: That just recollected me that Mike explained the background. Dick introduced me because he was just being pleasant and Dick would have said, 'And he'll be able to help us in our South African campaign, over to you Allan.' Dick's would be an introduction. He called me to his office, 'This is Basil Hersov, he is a big industrialist down in South Africa, he has worked with the company and in the future you and Basil should have a chat and get to know each other. He will help us in South Africa, over and out.' Then I have gone out and investigated, talked to Mike and Mike has explained Basil Hersov's role. Mike, not Sid. I just suddenly remembered the conversation because of Robbie's involvement, he was a big champion of Basil as well.

G MURPHY: If you think that, it is quite clear that Dick and Mike are saying that you have to have an agreement for this guy. The fact that you know that he hasn't got these contacts, Basil Hersov I am talking about, do you think that there is a chance that this really is just sort of window dressing and making this all read right so that there is an agreement in place?

A MCDONALD: To my mind this is, I think I may be on record where I have renewed the agreements with Basil. I think I may, if you ask me, I'm sure I have renewed every year the agreement with Basil because I was told it was a legally binding

requirement. There was no negotiation, there was no discussion, no negotiation and Basil made it clear that he wasn't willing to discuss it. When I talked to him about reducing levels of commission, he reacted. I encouraged Kevin, I don't know what happened, did Kevin not get-?

L JONSON: He did, he went down to 0.5% and 0.25%.

A MCDONALD: I encouraged Kevin to go in there because he never anticipated the scale or the size of this. He had just been absolutely greedy and I encouraged Kevin to go and have that negotiation with him, so well done Kevin. He couldn't claim, I can't think of a single thing he did for us in my time and Kevin would be able to tell you if he did anything in his time but not a single thing. I think if we get Placo, that agreement, I think it will confirm what happened with the 125 back then and why he ever featured. Let me tell you also that-

L JONSON: No, we, is that alright?

G MURPHY: The time now is 12.59pm and we will stop the tape.

(End of tape 11)

TRANSCRIPT OF INTERVIEW HELD AT TODS MURRAY LLP, SOLICITORS,
EDINBURGH QUAY, 133 FOUNTAINBRIDGE ROAD, EDINBURGH EH3 9AG ON
WEDNESDAY, 15TH AUGUST 2007.

CASE REFERENCE RLI02

TAPE 12 OF A BATCH OF 14

PERSON BEING INTERVIEWED: MR ALLAN MCDONALD

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MR PETER PATERSON	-	SOLICITOR

B SMITHWHITE: This is tape 12 of the Section 2 Interview with
Mr McDonald. The time by my watch is 13.04.
Please can you confirm, Mr McDonald, we've not
discussed any matters relating to this case
during the interval since the end of the
previous tape?

A MCDONALD: I can confirm that's the case, and we are all
still present.

G MURPHY: Towards the end of the last tape we interrupted
you and you were in full flow there.

A MCDONALD: Yes.

G MURPHY: We'll go back over it if you will allow me to
continue.

RLI297

Corrected Transcript

A MCDONALD: On Basil Hersov we were discussing.

G MURPHY: Yes.

A MCDONALD: Basil Hersov, we talked about the 1% - I was instructed to give him 1% from day one, so there was never any question about negotiation or what; I never entered into any agreement with Basil about what it should be. I was told, that is what he seemed to expect, and we went ahead with that process. Visited him on a number of occasions, say probably three or four occasions, at most, all my time in South Africa, and just update him and exchange, but he never, ever made any offers to support. It was I who used to say if we could try and help or can you volunteer anything. He never offered, never felt, never seemed under any obligation to. He just told us we needed things pass it on to Richard Friedman to deal with that. It was almost like 'That's fine, that's in the bag, I really don't have to engage.' And so, I mean, to me, Basil Hersov's contribution to us winning business in South Africa was zero.

G MURPHY: Right, okay. There came a time, we've already discussed the agreement that was in place when you arrived, which was Hawk one percent. There came a time, and if we go to page 85, the next document, that's, I think, you got involved in an amendment, proposal for the amendment to the agreement, and that was the introduction of another one percent for Gripen.

A MCDONALD: Yes.

G MURPHY: Could you tell us a bit about how that came about?

A MCDONALD: Well, well Richard Friedman contacted I think it was, it would be Stuart McIntyre, to say that he'd heard that we were advancing an argument for Gripen into the campaign now. If you check that Basil Hersov is a retired Air Force officer as well, or has got Air Force officer standing, retired, Honorary Colonel, so he was finding out through his Air Force contacts that we were promoting Gripen. Richard Friedman contacted Stuart, I went to see Basil and Basil said that he wanted whatever arrangement was in place for Hawk to apply to Gripen because then, you know, he had an understanding with the company that he was to be covered in all products. So I checked that out with Mike Turner, he said that's exactly right, so we gave him-

G MURPHY: You did, so you checked it out with Mike Turner?

A MCDONALD: Yeah, yes I checked it out with Mike Turner.

L JONSON: Did you say, well the guy hasn't provided anything on the Hawk, why are we carrying on still?

A MCDONALD: Every conversation I had with Turner, I told him that this man was of no value to winning the business when he, and each time he said, you know, well, this is us, we have no choice in this matter. So he was, you know, there was no, I mean, it was no, after once or twice it was very pointless having the conversation because they just expected him to be copied into the

deal. But I say in fairness Dick never, ever expressed it, since it was introduced to Dick, see I think the vehicle was let Allan see that Dick's involved, hence the introduction, Mike you tell Allan how it is to be executed. That's the kind of way the process, as I understood it, to work.

G MURPHY: Okay. Just moving on then, finally really on Basil Hersov, from me, page 91 we've got a request for an ex-committee proposal.

A MCDONALD: Yeah.

G MURPHY: And that's again a further amendment, and that's actually reducing down to 0.5 percent, I think that's, oh no that's March 1998, and you've signed that one. So, you yourself are then getting involved in squeezing the percentages.

A MCDONALD: Yes, we were coming up, if you see we were coming up to the point that's I think the government had already put out that they were going to do down select and they were going to, the whole process we had to go through, and we had to table a price at that stage. And I went to all the parties and said we really have to, we are not going to win, and the argument I took with Basil is that, you know, the Gripen is unaffordable. He should know that from his Air Force budgets. The Gripen is unaffordable, so if we've any chance of winning with the Gripen we need to get a reduction in the cost we put forward, and everyone needed to make a contribution. And if fairness to him, he did on

this occasion. Because, bear in mind, I mean, just think about it from their perspective. He was thrown the Hawk, he now sees the Gripen and he's doing nothing for it, you know, so why argue? I mean, the size of the package, I mean I think in fairness he thought, I think a lot of people thought I was smoking opium to think we had a chance at getting the Gripen deal, and indeed earlier on very few people thought we'd have a chance of getting Hawk, but he agreed, he agreed.

G MURPHY: It must have been a strange; oh this was ex-committee, wasn't it? Did anybody ever call you in relation to this proposal, in ex-committee?

A MCDONALD: No, I would have put forward the proposal and I would have asked, this would be renewing the agreement, this would be renewal time frame, and in that renewal time frame I wanted that come down about half a percent. No, no, I just submitted it I think.

G MURPHY: I think yesterday you said if ex-committee there were any questions-

A MCDONALD: I submitted it in my monthly management report, chief executive's reports, managing director's report, into the company operating, and I would have put down there that the price was on to reduce price.

G MURPHY: Okay, they would have had that detail.

A MCDONALD: They would have had that detail and that we would have to look at the cost of the airplanes, every element I'll have said in that note, every

element of cost to the product would have to be looked at, with SAAB, British Aerospace, every element, and I think the guys will have read, they'll smile but I'll have got Hersov down, I mean, they all smile but I've got his agreement to in it. I think the way, just thinking about the way that Mike Turner's mind might work, where we'll see if Hugh can get him to agree. Sort of like Allan saying he's agreed half a percent; let's see if Hugh can get that into a formal agreement. He'd be laughing up his sleeve expecting you to come back and say he hasn't done it, but I had already secured the agreement with Basil.

G MURPHY: Just a final question on the mechanics of the ex-committee, I think yesterday you talked to us about how an approval ex-committee was achieved. Did you say that two signatures were required to approve something ex-committee?

A MCDONALD: No. You are required, there may be two signatures required on the document. I mean, I think there may be two signatures required on the document, right? But, on the execution document, but the requirement ex-committee, you would have to have had George Rose, Philip Riley yes, Mike Turner yes. You would have had to have had the three of them. There would be, no agreement, to my understanding, could go forward without legal, financial and the operations agreement.

L JONSON: But we don't see George Rose on these

application.

A MCDONALD: George Rose would not sign off anything I don't think. I don't think he signed off any agreement, but he agreed, if you follow me.

L JONSON: But why does this not get copied into him then? He's never copied in on any of them; none that I've seen anyway.

A MCDONALD: Perhaps it was expected that Philip Riley took up with the financial and coordinated that. I don't know, but if you ask me, if you ask me, they may, Financial insisted on being represented on that committee, if you like. Previously, if you check back, they weren't, and so finance wants to be there. When Richard Laphorne came in he pushed Finance into much more of the control of the organisation than ever before and sat on just about every committee. Maybe on renewals, maybe on renewals - see, in this case, this is either an agreement we've agreed on less than we've agreed, so they might have not thought it relevant for, I couldn't tell you why Hugh, but they might of not thought it relevant or appropriate for George to approve something that was simply a renewal, and for something less than before. George might have said to them 'Don't send me renewals which are supported by Philip and Mike, and by the managing directors, if', he might say 'I only want to know if there has more been committed.'

L JONSON: Can I pick up where you, it's actually not about

Brookland its about something totally different, are you done with Brookland? I've done Brookland sorry I didn't say.

G MURPHY:

Yes.

L JONSON:

You obviously dealt with Hugh. Did you have any dealings with Julia Aldridge?

A MCDONALD:

Very little. She attended a lot of the meetings if Hugh was there, but I had very little dealings with Julia.

L JONSON:

Alright.

A MCDONALD:

I was surprised at the level of involvement she seems to have in all of this, you know, afterwards, press announcements. I was surprised that, she appears in the Lichtenstein court papers, specifically Hugh doesn't. Hugh was kept on as a consultant after he retired, and to my mind was still managing much of this.

L JONSON:

Was he? Do you know how long for?

A MCDONALD:

Well, if you'd ask me he's still a consultant. If you would have asked me I would have said he is still a consultant. I don't, I mean I have no basis, but my...

L JONSON:

How would you describe, when you were there, what would you describe her involvement as?

A MCDONALD:

Secretary. Secretary, administrator. Go along with Hugh to meetings, she probably attended a lot of meetings with Hugh, but never active, never sitting down and having discussions.

L JONSON:

Right.

A MCDONALD:

You know, she, different personalities entirely.

L JONSON:

If you had to describe, take Hugh and take

Julia, how would you describe the two of them?

A MCDONALD: I would have described Julia as a civil servant type person, you know, in terms of procedural, following the rules, very proper. I would describe Hugh as a very intelligent individual, great sense of humour, very personable, dealt with agents who were upset, massive good talent of managing that, calming people down, coming back and giving a perspective from an agent, how the agents felt about things when it was bad news, and feeding back, that sort of thing. He was a very accomplished individual, Hugh; a very accomplished individual.

L JONSON: What about Andrew Fletcher? Did you ever meet him?

A MCDONALD: I know Andrew. He was the secretary at Wharton, and then he came down to take over from Hugh, but I just had bumped into him a few times, but not a Hugh Dickinson, not, you know, more like company secretary type, just as he was, more formalising. My understanding, Andrew came down to hold the fort. They installed the team but Hugh was still around in the back there to deal with the delicate situations. I mean, he retired but he didn't really retire. Just like Dick retired. I mean, Dick's still on the payroll as far as I understand, you know, today, as a consultant. So they don't normally let, they don't normally let the key people go ever.

G MURPHY: Would you describe Julia as a strong-willed person, or quite the opposite, or-

A MCDONALD: I would say stubborn, but I would describe her as a stubborn, it must be done by the rules, but not, her role would not dominate over the sort of personalities we were meeting or discussing.

L JONSON: Do you think she's the type of person that when faced with, I don't know, agreement, would challenge certain things?

A MCDONALD: She would hear what was said in committee, and with Hugh, and if she was on her own, I'm presuming here because I never saw that, she would execute precisely what was agreed, precisely what was discussed and agreed at committee, not outside the realms, not offer any concession, and refuse to give concessions outside of any of that.

L JONSON: So she basically, from what you were saying, would do whatever the senior people said?

A MCDONALD: Exactly, without question, without question. And I, I mean she sat and met, just so, she sat, in most meetings I ever had with Hugh, and I would go and talk to Hugh about how we'd execute, in terms of look, this is what was agreed, what's the total, have you done this. She would always come in and sit and listen, because she was on the South African campaign. And that's, no matter, and how I know it was not just her, because when I would talk about, I had a covered, when I was talking about Australia I think it wasn't her. She didn't cover, she didn't sit with Hugh in every, he would bring in his other girls to sit over the different

regions. So I was surprised that, a) that, I was surprised that the focus that Julia seems to have got in this whole thing. To me, she was only ever an administrator.

L JONSON: She's now the head of what used to be called HQMS?

A MCDONALD: No, I think that's because, what's happened, just so we're clear, because they don't do this anymore, because when became, when we started, and you'll find somewhere in the press you'll find there was a time since I've left, that British Aerospace get more involved and had to give certain undertakings to the American government, right?

L JONSON: Yeah, John Weston wrote to them.

A MCDONALD: Yes. At that juncture, this whole process was disbanded to the extent of let's not do this, let's get out of it, let's be professional in the whole, so what's happened is the clock's running out, we're just, she's managing, to my mind all she is managing is the execution of what was agreed prior to that. Probably nothing new.

L JONSON: But what about in all the rest of the, you know, the countries, in all the rest of the world, where it is expected that you will pay a commission?

A MCDONALD: I don't think it's done any more. I think the damage to BAE's business interests in America is so great that BAE doesn't participate anymore. I think there's a lot of lessons been learned.

Just, and I'm just, I don't have any evidence of that, you know, you bump into people, but none of the senior people have told me that so I don't know-

L JONSON: But agents are still being used, aren't they?

A MCDONALD: Oh, well, I don't know that that's the case. I think the engagement of new agents, I think the old agents will be seeing out their contracts and that, you know, and some of them have 20 years to run, you know, spares contracts and all sorts of stuff. But there will be no, I will be very surprised if they were engaging in any new agent work; very surprised. Because the value of those contracts and the profitability is so small in comparison in the potential to lose the American business, and I say that because, I'll tell you about something else I read, is the new Chairman came in, and he's, he, he's had clashes with the management. I've heard that. He's had clashes with the management. He's determined to rid the company of this reputation, and distance himself from the whole process. And so, I think he's, coming from BP and coming with a completely different outlook in corporate governance and all that. I think he's, there's big changes taking place in the-

L JONSON: Because Mike Turner is still the CEO. Old guard as you were saying.

A MCDONALD: Yeah, you know, and there's tension between, I mean you just look up the press, you see there's tension between those two guys, publicly talked

about tension between the two of them, you know? I'm smiling, thinking well Dick ousted three chairmen, if you think of Dick's time as chief Executive. How many chairmen will Mike oust? It'll be interesting to watch the whole process. But I mean, a very, very political company; very political, you know?

L JONSON: Okay. Lovely. The time is 22 minutes past one, and we are going to pause the tape to have a quick bite to eat.

G MURPHY: Yeah, the time elapsed counts are showing 16.

[Tape is stopped and resumed]

B SMITHWHITE: This is the Section Two interview with Mr McDonald. We are resuming on tape 12. The time by my watch is 13.59, and the counter has just changed to 17 minutes.

G MURPHY: Before we continue, can you just confirm for us please that the tapes were left in the machine, were not tampered with at any stage, and there was always one or the other of you in the room to witness that?

A MCDONALD: Yes.

P PATERSON: I can confirm that the tapes haven't been interfered with.

G MURPHY: Thank you.

A MCDONALD: And I concur with that.

G MURPHY: Okay, before we move on to another, another agent, I just want to go back to Richard Charter. I know the name Huderfield doesn't mean much to you, but I think we have already covered the fact that that was Richard Charter's

covert company. In December 1999, which I appreciate was after you'd left, there was an amendment, proposal to amend, Huderfield's agreement with BAE, and the amendment was to actually award Richard Charter \$4 million upon the signing of the contract. Now, we know the contract was signed on the 3rd of December, and this particular amendment to the agreement was made on the 2nd of December, so the day before. It was basically saying 'Upon signing, Richard Charter will be forwarded \$4 million.' On the 7th of December that payment was made. Could you, do you have any knowledge of why it would have been Richard Charter would have received such a large amount of money immediately upon the signing of the agreement?

A MCDONALD: I have no knowledge at all of why such a payment would be made, or would have to be made. I would have no knowledge because even with the signing of the contract there was no benefit to British Aerospace at that point, if I am not mistaken, until the contract was validated, and so-

L JONSON: Who would be able to help us with that?

A MCDONALD: The only person who would have been able to approve that would have been Kevin Smith.

G MURPHY: Kevin Smith.

A MCDONALD: He is the only person that would have approved that, because that is who the dialogue would be, the only thing I would say if you said to me that, now that you've shared that fact with me,

what's my reaction to that? Well, my reaction is that every year he would come forward with a list of all expenses that he incurred on behalf of British Aerospace; running people to the airport, doing this, and he built up, and he was building up a file of what the actual cost of supporting us, and he always said this should be charged to BAE South Africa. And I, we had already established a budget for BAE South Africa and he used to go above and beyond what was requested of him, always trying to assist the process as much, so he was always looking for a refund of his expenses, and there was considerable expenses mounting up. And would argue, he would argue he'd spent, you know, millions of Rands - I couldn't think of how to equate it - but millions of Rands on supporting our campaign since 1994 or whatever, and was always looking for the company to reimburse him for that.

G MURPHY: Right.

A MCDONALD: So it may have been he'd come to an agreement with these guys, well, okay, if we get to this stage, if I've done all this, you've ignored all my pleas for assistance, would you now at least pay all my costs.

G MURPHY: Yeah, because he was, I think we discussed yesterday, Richard Charter was receiving some advance payment on his expenses.

A MCDONALD: Yeah, but-

G MURPHY: Through his overt company.

A MCDONALD: Yes, through, BAE South Africa would have paid him a retainer, and he was able to charge some expenses in there, but no, you're quite right. Up to before that, I don't know about after that, but before that he got, Osprey Aviation was paid for-

G MURPHY: Yeah.

A MCDONALD: You know, he would look after all sorts of people and pick up the bills for hotels and all sorts, and reimburse, recharge it to the company.

G MURPHY: I've got a schedule here which is the analysis of payments to Osprey. Let me see. No, the first payment was in April 2000.

L JONSON: That's not right.

G MURPHY: That's not, is it?

L JONSON: Well actually no, that \$4m was paid under Huderfield.

G MURPHY: Yeah. I thought yesterday we were discussing the fact that Charter was receiving 25,000 and a number of-

A MCDONALD: Yeah, through BAE South Africa. When we set that up he got, he got an allowance, but he also got expenses paid through BAE South Africa, but it was defined and limited.

L JONSON: But that was through, in his capacity as Chairman of BAE South Africa, rather than as a consultant of Osprey.

A MCDONALD: Yes, but, I'm sure you'll find, because my recollection is that he got expenses, before that he got expenses paid direct from Osprey

invoicing Neils Petersen, he approved them, and it was just like general, but they wouldn't be.

P PATERSON: Is that actually supposed to be guarantee.

L JONSON: No, that would be, because Osprey was Red Diamond payments paid out of the HQ Marketing account.

A MCDONALD: I am absolutely convinced the payments would have been made to Osprey by British Aerospace Marketing, for costs that he had covered on our behalf, and he was able to generate the invoices. As far as the \$4 million is concerned..

G MURPHY: Okay, we-

A MCDONALD: I would have just, a general view is, that seems to be an excessive amount to pay anybody at that stage in the proceedings.

G MURPHY: Yeah.

A MCDONALD: And the timing of it, you know, just asks all sorts of questions. That's what you, because that's what you, if you ask my reaction, that's what my reaction would be. I would have, would I have countenanced that? I don't think, in any circumstances I'd have countenanced that unless, it seems that the request was made before this signature was in place.

G MURPHY: Yeah, the agreement-

A MCDONALD: And paid out immediately afterwards, so that's-

L JONSON: yeah, I can tell you...

A MCDONALD: That's suspicious-

G MURPHY: It's the 2nd and 3rd of December.

L JONSON: Yeah, but the proposal, in terms of when it was asked for, what date, are we in 1999?

G MURPHY: Yeah.

L JONSON: \$4 million proposal, we haven't got a copy of the actual proposal itself, but it was referred to the committee in November, on the 16th of November, and it was signed by three out of the five people. In fact we've got copies.

P PATERSON: Is that the one on page 115?

L JONSON: That's the one we've got.

A MCDONALD: What page?

P PATERSON: Page 115.

L JONSON: Yeah, in fact we could deal with the individuals on that while we're at it; deal with those people.

G MURPHY: Mr McDowell.

A MCDONALD: Well, Jim McDowell was, he went out to replace Robin Southwell in Australia, but there was a, there was a time where it was put around he was going to replace me, but he never, ever did. So I think he was meant to come back from Australia, into South Africa, but was then, stayed on in Australia.

L JONSON: Why would he be signing the ex-committee referral?

A MCDONALD: Because he would be seen then as the managing director of the business.

L JONSON: What about Kevin Smith?

A MCDONALD: Well, I don't know. I don't know.

L JONSON: And who's Miss H J Turner?

A MCDONALD: I don't know, I think she may be one of the, she's either something to do with the company secretariat, or she was part of Hugh's

organisation, but I just know the name as a, but she'll be in the BAE records. I think as part of the company secretariat, or is she one of the accountants? She's in at headquarters as one of the administrative roles, but could be finance, could be company secretariat, or could be Hugh's organisation. I can't recall - sorry. I don't know her. I've come across her, I'm sure I've come across her, but I don't know her.

L JONSON: What we see on that page 115, and it's doc-man reference 009582000222, it says, there's a hand-written note, two hand-written notes; one which is at the bottom written by PR, that says 'Please ask for a bank guarantee of repayment.' And above that-

A MCDONALD: That's Philip Riley that' written that.

L JONSON: Philip Riley, thank you. And above that another handwritten script saying 'MJT-', is that Mike Turner?

A MCDONALD: Yes.

L JONSON: '-requests HD', Hugh Dickinson maybe, 'to ring RC'-

A MCDONALD: Yeah, Richard Charter.

L JONSON: 'just prior to signature. How does he intend to repay if anything goes wrong?' What do you understand that to mean?

A MCDONALD: Well they are about to pay \$4 million in advance of British Aerospace receiving any money.

L JONSON: But the have signed the, by the time he gets that they will have at least signed the contract.

A MCDONALD: But not a validated contract. What they have signed.

L JONSON: What is the difference?

A MCDONALD: The contract was signed by the negotiating parties.

L JONSON: Right.

A MCDONALD: Those negotiating parties do not have power of attorney to commit the government, so it then has to go through a process of validation and account allocation, you know, from the Treasury. So this is a point that, I don't know, maybe we mentioned it before, but Peter and I thought it was very relevant, the key time for consultant influence, the key time for consultant interface was get the contract signed and get us top of the priority of being validated and executed in terms of Treasury money allocated. From BAE's point of view, because its down payment at that stage.

L JONSON: And when was it allocated? I'm sorry, when was it validated; the contract?

A MCDONALD: It was about, say, was it not June the following year?

G MURPHY: Right, May 2000.

A MCDONALD: I'll tell you exactly, I've got a note in my notes.

L JONSON: The reason I say that is-

A MCDONALD: It's only because it's in the general. It's in the public domain so I'm just-

G MURPHY: I'm getting very confused here. Is this just the effective date?

L JONSON: I think it is the effective date.

G MURPHY: The effective date; that was April 17th if I remember rightly.

A MCDONALD: Yeah, well April the 17th the following year was the effective date.

L JONSON: Right.

G MURPHY: Yeah, so there six months, four months later.

A MCDONALD: Yeah, well that, not all the contracts became effective on those dates. This was the first, British Aerospace was the first contract to become effective, the first to receive the down payment, the first to be in the pipeline, do you follow me, of happening.

G MURPHY: Yes.

A MCDONALD: So the period of when, all the contracts I think were signed, all the contracts for all companies under the defence agreement were signed end of the year.

G MURPHY: Right.

A MCDONALD: So, getting contracts signature was critical. Critical because it said all the negotiations finished, here is the deal. Then you needed to get it validated to become effective contract.

G MURPHY: Right.

A MCDONALD: Which was through the formal parliamentary process, etc, all the things need to do.

P PATERSON: And for that fact it's binding on the sovereign government.

A MCDONALD: Binding on the sovereign government only in April. And why Mike was saying, well, what if something goes wrong between contract, signature

and contract validation in terms of effectiveness, what if something goes wrong, what's he prepared to do, then get the bank guarantee for repayment. Well, that would not have happened with Richard. Richard created scenarios, I mean, Richard created scenarios that 'I must do this, I must do this. If we don't do this we're going to lose things.' Niall, and Stuart McIntyre used to panic, you know, must do this and try and force the company. Initially when I first started dealing with him, when he tried to get me to do all sorts of stuff, but I always said 'Well, let's check it out.' And we checked it out independently. Because when we first, you know, he ran South Africa. I mean, he was, Stuart wasn't in South Africa, I wasn't in South Africa. So when we do it he seemed to know everything that was going on. He had his great network of spies and he used to create panics about 'We need to do this, we need to do that.' And we used to respond to him, you know, have this meeting, take this guy out for dinner, do this, you know, all sorts of stuff. Get a government minister to make a call. He used to panic all the time, but eventually I learned that he was just a panic merchant. And I think what he's done here, he's created some sort of scenario that required him to get \$4 million, either for himself or for someone else.

G MURPHY:

During the period of time between the agreement

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being signed and the effective date, was lobbying continuing then?

A MCDONALD: To my mind. I don't know. But I was saying to Peter, if I was in your shoes, that would be the period of time that I, the final 12 months leading to contract signature, a lot of attention, a hell of a lot of attention, because you see, so much can, a contract you've never won until you've won. And until that first payment is made, and it's then legally, you know, all sorts of things could still go wrong between November and, well, nobody knew when it was going to be. It was April it turned out to be, but from that period of time to when it is effective, and everybody is trying to, you know, it's like, remember I told you a situation that we were doing, British Aerospace was fighting for a budget in Brunei, and in Malaysia, against GEC, so there was so much money there and we were all trying to get our hands on it, and therefore nobody ever won because it was too much and it upset everybody.

The situation down there, all these people have their contracts signed and wanting it validated, and they are all, the Treasury will only so much, will be able to award so much at certain times otherwise they'd bankrupt South Africa. I mean the whole gold, if you look at the way the whole gold, I mean, if you go and talk to Barclays about how the gold profile was developed, so there was staged payments to keep

the economy of the country stable because they'd have to come up with special provisions, so there would be a hell of a lot lobbying. I mean, if you said to me, and that's why when I looked at that previous agreement, why you start to see agreements occurring about the year 2000, remember that agreement we looked at? The Surtee agreement was about 2000. That's when people would be most susceptible to use their influence. Get us, get us to be the first released.

P PATERSON: See, I think the process that Allan described is one which, you know he said in the last day and a half, he said that either the process was going through the Aviation Administration without an open process, and they had so many people involved in it. If you are thinking about investing in any particular individual, you couldn't guarantee at any point that was going to be the weight in that matter because there are so many parts involved, but once you get past the signing the contract and this question of validation, the whole process is left democratically, much more opaque. And of course, as soon as you get this opaque period entering into it, and I guess there is a more, a higher possibility of the Third-World methodology resurrecting itself.

A MCDONALD: Yes, the process was a First-World process up until, I would say, when they put Jay Naidoo's, and he was so overtly managed, overtly managed,

Jay Naidoo negotiations and all of that, I would have said up to the point of contract signature, there would be high, high profile, public awareness, all sorts of stuff going on, and it would be very difficult even to know who alright. If you decided to use Third-World politics, who would be the right person to pay anything to. You know, with five ministers involved, Air Force involved, ARMSCOR involved; who would you pay? If you asked me I wouldn't know who to pay. Who to give any money to influence. You'd have to have a big, big pot, and it becomes too many people because you can only do this to so many people, so I would just think, that's why I started thinking I'd ever be, but the fact that we came out first after the contract award, there would only be two or three, four personalities involved in making that decision.

L JONSON: Do you know they would be?

G MURPHY: Yeah.

A MCDONALD: Well I can, Peter asked me the same question, I said it would be Trevor Manuel. The finance would say 'Here's the budget.' But certainly Ministry of Defence.

L JONSON: And who was MOD at the time?

A MCDONALD: It was Patrick, Joe was gone by that time, Joe Modise.

G MURPHY: Was he?

A MCDONALD: Yes, because he left when Thabo, it was Patrick, Patrick Terralacotta, Patrick Terralacotta was

the new Defence Minister. So he certainly would be, have some say on who would be chairman of Armscor, whoever that would be, maybe still Ron Haywood, I don't know, you'd have to check, but it would be very much in the Ministry of Defence environment as to who they should go with first. Because that gave you the money. And once that, that was a binding contract. And to me, we never think in aerospace, see, what I'm surprised at Richard Charter, and I can see why they'd ask for bank guarantees. This is so against the culture of British Aerospace to pay that sum of money until a down payment was made.

L JONSON:

I mean, while you, well you say until a down payment was made, because that's what they want. That's what they considered to be, down payment on signature of the contract. That's what they call it. Because if you look, it's not just Huderfield that's getting money in advance. Brookland, as Alan Curtis' vehicle, is getting .5 and 1 percent in respect to the Gripen and Hawk respectively, on down payment. And if we look at the first, have we got the Milestone schedule there?

A MCDONALD:

From the South African down payment?

L JONSON:

I think it's on down payment in respect to the contract signature.

A MCDONALD:

No, no, no. The first down, no the first down payment, the first financial down payment from Treasury-

L JONSON:

Right.

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A MCDONALD: Trust me, British Aerospace would never, unless the whole culture has changed, would never pay any money until they received the money themselves. And this is what makes the Richard Charter memo quite exceptional, Richard Charter memo quite exceptional. I would never - Well, you will be able to know from your financial records, but I would be surprised if anyone got a payment before April, other than, obviously, everything Richard has.

L JONSON: Yes, they got-

A MCDONALD: Sorry?

L JONSON: Yes, they got it after April.

G MURPHY: After signing.

L JONSON: Yes, 28th of April is the first payment to Brookland. Alright, that makes sense.

A MCDONALD: But to Richard Charter, my reaction if you said to me, is very exceptional, very exceptional. And if you said to me 'Try and come up with an explanation', only an accumulation of expenses, but I would never have thought it would be this level of expenses. So, you know, the best reason I could give you for why would he need that, was that he just had run out of patience and was telling them 'I'll help this signature through, I've done all this, I wont frustrate it but I want you to give me something for my expenses,' knowing Richard. But Richard could have created a mirage that they needed to do that to get them into contracts. He was capable of doing that. He was, you understand, capable

of creating a mirage that he would need this. And if, it depended on how much they investigated, you see. Sometimes it was so close to the wire that they would just sometimes go with it. I mean, you know there wasn't, you know the big picture would overview the small picture, rather than do an intensive investigation if what Richard was saying was right or wrong. But he would have communicated this either through Niall Irvine or through, or through, probably directly to Kevin Smith. Those were the two people that, whoever progressed that would have given the explanation to justify it. You see it's interesting, when you look at the signatures, the signatures. He could have taken, I think he could have taken that one up directly with Neils Petersen, because Neils started to take up more involvement.

- L JONSON: I'm just wondering why they had all those signatures for a South African, for a-
- A MCDONALD: Helen Turner by the way is finance. I remember, she's finance, she took over from George Rose.
- L JONSON: Right. Okay.
- A MCDONALD: So she's now substitute for George Rose, right?
- L JONSON: So the only extra person in there really is-
- A MCDONALD: Is Jim McDowell.
- L JONSON: Yeah.
- A MCDONALD: And Jim McDowell was being talked about as the new, the managing director of that region, but it never happened.

L JONSON: Right.

A MCDONALD: And he probably was taking an overview of things and they put him in, but they didn't need his signature.

L JONSON: Okay.

A MCDONALD: But you had all the key signatures there.

L JONSON: Right, okay. Did you have any more contact with Richard before he died?

A MCDONALD: No, no, never since they day I left. And that was tragic. Patrick, Sir Patrick Hine had been visiting Richard the week before.

L JONSON: Oh really?

A MCDONALD: Had gone, he was, he and his wife Jo were on holiday down there. I see a lot of Sir Patrick; he is a member of the Royal Ancient, I see a lot of him; he's a great golfer, but he rushed back from, he was telling, Sir Patrick, that he rushed back after had died, so I know quite a lot about what happened, Paddy shared it with me, he would have let me know what happened.

L JONSON: Do you know it, I mean, can you share it?

A MCDONALD: Yeah, well it's, you know that he was out, he was out on the river. His son Andrew and his girlfriend, and Richard and the farm manager were going down the river on the farm and they came to quite, because there was a lot of rain and the rapids were there, so he got his son Andrew and his girlfriend to lift up the canoe out of the water. He kept going, because Richard was a big adventurer, a big adventurer, so farm manager, the canoe was overturned,

Richard came up, the farm manager wasn't there, he dived down and the farm manager came up and Richard was caught in a whirlpool and never survived it. Came up and just died there, was how Paddy described it to me. So a tragic death. Andrew, his son, the year before, had been coming back to the farm. It was stopped by gunmen, the driver was shot through the head in front of Andrew, he was only 18, Andrew, and then they turned the gun on Andrew and fired, but it jammed, and he jumped over the fence and ran for miles, and that's how he escaped, and then a year later his father is killed, so. Two nice sons, two nice boys.

His wife Janet is a real lady, I mean a really very, very nice person, and she brought the kids up quite differently from Richard, who was a real go getter and a bit of a real character. Big 6'3" of a man, big, strong, and I was shocked at his death; shocked at his death. You hear rumours going around it was because he failed to pay other parties and all sorts. I've heard all that sort of rumour since, but I think it was a tragic accident.

L JONSON: Okay, um, Alan Curtis. You talked a little bit yesterday in the introduction about how Alan was a mover and a shaker, and in London, obviously friendly with the Thatchers.

A MCDONALD: Yes.

L JONSON: What was, when you arrived in South Africa, so far as you were, what did you think, which

particular people did you think he was influential with, apart from Joe Modise because you've dealt with that. Was there anybody else?

A MCDONALD: No, always with Joe.

L JONSON: So what did you, in a nutshell, what would you say his contribution to the campaign was?

A MCDONALD: I would have said that Alan Curtis did us an enormous favour in persuading Joe that the route he was going down with GEC was a disastrous one and that what he needed to do was embrace the defensive review process then going on to competitive tendering. I would have thought that his influence was, you know, I think the person that sold the message to Joe first would have been, I certainly know, was Alex Roberts. He took the minister through this. But we knew the minister would immediately sound out Alan, so, and we had Alan briefed. It was like all the plans; one step, two step, three step, and we know Alan did a great briefing. I know Alan did a great briefing and continually cajoled Joe to keep in hire.

L JONSON: So once the review, once the ministry decided that a, you know, a more even-handed approach was preferable, do you consider Alan Curtis' involvement finished there, or was he still on the scene after that?

A MCDONALD: Well he was always around with Joe. I mean, wherever Joe went, Alan was there. Even in London he used to, Joe would stay in his house every time he came to London, and he came, I

mean, it's interesting if you look at House of Parliament questions, both in South Africa and here, did Joe Modise visit the country at certain times, it was official response in our House of Parliament says no, there is no record of being in the country at that time. But I know at that time he was staying with Alan Curtis and attended events. He wasn't trying to keep it a secret, so he did attend quite a lot. He was very friendly with Alan. Alan, I think what Alan saw was an opportunity to get close to the Minister of Defence, played the old, have you met, he's very elderly, I don't know if he's still alive, Alan, he's a very elderly individual, he's older than Joe, he's a lot older, a very elderly man. Dennis Thatcher-

L JONSON: I think he's about 80.

A MCDONALD: But a Dennis Thatcher look-alike as well, you know?

G MURPHY: Really?

A MCDONALD: Yeah, he's that type of individual. A very, very polished performer. He was close to Joe from the first time I ever met him, and that was, his influence would only, I don't know that he knew any other ministers, but he was with Joe, and Joe stayed with him, and he was a big influence, positive influence over Joe, and he was, he really told Dick what he wanted, and was from my point, in the context of what he asked for, sort of what everybody else was getting, I didn't think it was expensive at that time. I

didn't think-

L JONSON: He got 8.5 million, so if you look at it in context, you've got Bredenkamp at 40, Richard Charter at about 26.

A MCDONALD: Exceptionally well-rewarded at 8.5 million, but we never thought we'd win both, you know, it's only because the scale of, the thing was so successful that these guys have got these big payouts, but you know, had it just been Hawk, I mean, I think he was relatively well paid.

L JONSON: Alright, well we'll stop the tape there. The time by watch is 25 minutes past two, and we're turning the tape off.

(End of Tape 12)

TRANSCRIPT OF INTERVIEW HELD AT TODS MURRAY LLP, SOLICITORS,
EDINBURGH QUAY, 133 FOUNTAINBRIDGE ROAD, EDINBURGH EH3 9AG ON
WEDNESDAY, 15TH AUGUST 2007.

CASE REFERENCE RLI02

TAPE 13 OF A BATCH OF 14

PERSON BEING INTERVIEWED: MR ALLAN MCDONALD

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MR PETER PATERSON	-	SOLICITOR

B SMITHWHITE: This is tape 13 of the Section 2 interview with
Mr McDonald. The time by my watch is 14.35.
Please can you confirm, Mr McDonald, we've not
discussed any matters relating to this case
during the interval since the end of the
previous tape?

A MCDONALD: I confirm that is the case. We are all still
present.

B SMITHWHITE: Thank you.

L JONSON: Mr McDonald, just before we carry on with
Brookland, whilst we were just having a quick
break there, we just wanted, we highlighted a
document with your solicitor that I think we

RLI298

Corrected Transcript

were going to return to, I think that that was the document referring to the \$4 million paid upfront, if we could put it that way, paid to Richard Charter. Is there something that you wanted to just clarify in relation to that document, or underline? It's DOCMAN reference 009582000225.

A MCDONALD: I put forward a few minutes ago that if you'd asked me, from my experience, why would a payment have been necessary, and I said the only thing I could come up with would be agreement that it was to meet expenses. What I've, just reading the document in more detail, it's interesting to note that on page 118 of your overall documents, which is page 4 of the memo itself, under the proposal, I note that the payments to be prepaid in the year 2000. 'The above sum will be repaid to the company does not become effective by 1 May 2000.' It seems to me that my explanation of it's down to expenses would be a bit misleading. That would seem to me, based on my experience, that this was paid to ensure there would be a contract signature and an incentive to ensure early effectiveness.

L JONSON: So, your reaction, having seen that, particularly the last sentence, is such that you think the money paid to Richard Charter was used to ensure that the contract would become effective by a particular date?

A MCDONALD: Yes, I think that, I don't know that it was used, but I think that Richard, knowing Richard

as I do, would have made a case that he probably would have needed some sort of budget to be readily available to him to ensure that the contract would be the first one to be allocated and effective by May 2000.

L JONSON: Would any parties at BAE, or indeed the agents generally, know about, well, know when the first contract would become effective?

A MCDONALD: Yes. Not when, the BAE, with the BAE intelligence net that we had established in South Africa, which Richard was part of, an integral part, would know what the intentions would be, would know what the intentions would be once contracts signatures, as to when contracts could then be issued, in terms of how much was, you know, what sort of amounts Treasury had allocated to be expended, and then it would be a big, it would be a lobbying, the companies would all, and unless, all the companies might not know that, but certainly British Aerospace would know because of the level of intelligence gathered that here is an opportunity to get first in the queue and to get the first down payment, to line themselves up. And certainly Richard Charter, of all parties I know, would have been that close to Treasury or some of the contacts. Because he walked in a cocktail, I mean, he had dinner parties all the time, people from ministries attending, you know, he and his wife did a lot of what you might call entertainment and a lot of shared

information, and he was well in the know, and would know, and would be able to put, convince them in my view, a case to British Aerospace that, you know, we might need a budget to ensure that we get first in the queue. And that would obviously be the sort of sum that you might think that BAE would have the stomach for. And that would be the maximum that I think BAE would have the stomach for paying upfront without any, any, so what BAE said, well, we won't pay it out until the contract is signed and we, you can see they were looking for bank guarantees and look for an undertaking that it be refunded if it they didn't have a contract by May 2000. So, I don't know if necessarily that Richard had anybody in mind, but I think he would have established a perceived need for it with the BAE people he was talking to, he would have convinced them.

L JONSON: And who would he have been speaking to?

A MCDONALD: He would, Neils Petersen, because, I would have thought, if you'd asked me who, the only person that I think would have the authority to even consider that would have been Kevin Smith, and I'm surprised his name doesn't appear on the document. Maybe he was on holiday or something, but Neils Petersen reported to Kevin, and Neils Petersen controlled the financial plan, and it may have been him. It doesn't say who proposed it, does it?

L JONSON: No, we don't have a copy of the proposal. It's

not been provided to us.

A MCDONALD: Yeah, well that's probably the reason, you know, whoever has proposed it was the person that's had the conversation with Richard Charter, and I think this is a very interesting piece. I mean, it's, my reaction would have been, having got this close, for God's sake let's not do anything that could knock it pure off the rails. That would have been my reaction to that. Let's not suddenly adopt third-world practices having got there by first-world practices. Let's not adopt third-world practices at this stage. And I would have said this seems to me to be giving you the capacity to go third-world practice.

L JONSON: Okay. Gary?

G MURPHY: I just want to go back and just explore a little bit more in Alan Curtis' relationship with Joe Modise.

A MCDONALD: Yes.

G MURPHY: Obviously he was very close with him and I think from what you've said that closeness was maintained throughout certainly your time in dealing with this contract. It appears to us that, I think we've already established that at most times throughout the contract, the Hawk was more expensive than some of its competitors.

A MCDONALD: Yes.

G MURPHY: In fact, all of its competitors.

L JONSON: And throughout it was, by far.

G MURPHY: It was always more expensive. And we know other things were looked at to do with nip and dip,

which we know is offset, and that was looked at in great depth. There came a time, and I think it was at the Durban meeting-

L JONSON: No, the Durban meeting finalised I think it was just before the Durban meeting.

G MURPHY: Just before the Durban meeting-

A MCDONALD: What would that timescale be?

G MURPHY: That's October '98, to maybe just before October, September.

L JONSON: Just before down selection.

A MCDONALD: Yeah, Down select, yeah.

G MURPHY: Yeah, there came a time where we have been told that the criteria of costs being a relevant part of the bidding process, the tendering process, was removed, and the person that removed that criteria was Joe Modise. Do you have any knowledge about that at all, and in particular was it something that Alan Curtis was dealing on, on behalf of BAE?

A MCDONALD: I've heard that said subsequent to the process. I never had any knowledge of that at that time, and I would have had knowledge. I was so up to speed with everything, as far as I was concerned the process included costs because the message came out that we would have to substantially address the price.

L JONSON: We have, I mean, we have credible evidence that the minister personally intervened to remove cost as a criteria. Our evidence, the evidence is that before the minister intervened the Aermacchi was the preferred choice, because,

really mostly because of cost.

It came out, according to our enquiries, on a par, from a technical point of view, with the Hawk. It wasn't because the Hawk wasn't a much superior, it was, but in terms of their defence requirements, some people within the government felt that it was unnecessary, for example, to buy a concorde when all you needed was a corporate jet. Now, that aside, at that point the Aermacchi, because of its cost, was placed first and the Hawk came in at second. And I think the French Mirage really, I don't think the two were not really considered. Then, I say evidence so far suggests, it was the minister himself, he personally intervened to ensure that cost was removed as criteria, and that would have been just before down-selection.

G MURPHY: In the build-up.

L JONSON: The last couple of months.

A MCDONALD: In the process of evaluation, cost was a consideration, and we recognised that we were going to lose out on the cost evaluation from day one. We recognised that, right? There were forces within the Air Force who were simply looking at the, wanted to scale down the advance jet trainer that was bought because it would make the hurdle greater for black pilots to move from the advance jet trainer into lead in fighter, and they wanted to keep, there were forces within the Air Force who wanted to keep for the next 10 years or 15 years operation, and

we mentioned the guy's name earlier, Steyn, and he was ex-Air Force but still had a lot of influence over Air Force. There were forces within the Air Force who wanted to keep the containment of advanced jet capability in terms of fighter capability, in the hands of white pilots. There was, that was a very, because it was always recognised that if the Air Force, because the Air Force was the most demanding, talented, you know, it was the one that could inflict the most damage, and if it was always, if you could keep control, because, I mean, I don't know if you were, George Meiring, just to put things into a bit of context, George Meiring, I think I've got the name right, was head of defence force when Joe was in power, and he was removed from head of defence force about this time because they thought they was trying to a coup d'état being organised within the armed forces.

So if you talk to you Minister of Defence or your Foreign Office people they will tell you, give you a much better explanation of all this than I can, but there was, so there was a lot, and there was Air Force connections. Julius Kriel was the Chief of Air Force, by the way, before Hechter. I was trying sort him, Julius Kriel. So at that stage there was a lot of suspicion about what was the motives of the chiefs of the armed forces because none of them black. Joe was the only black presence. And so

when the criteria was set up, Joe set up the criteria, and we used Alan Curtis to reinforce this but not to present this, because we'd already done a good work with Sir Patrick that there was a whole segment of evaluation, like the ability to do advanced jet training, the ability to lead from advanced jet training the time scale, and the time scale that it would take for different levels of pilots to do that. The cost of the airplane, the life cost of the airplane, the engine support cost of the airplane, and we went through that whole profile, so there was a very sophisticated analysis done of each element of the project. We conceded in our modelling that we would lose out on cost. We always accepted that we would lose out on cost, but in every other element, in terms of the life support, the engines, the type of engine we used, when you looked at the durability of those engines, we come out as winners and we hoped that that would offset the other in the point scoring.

L JONSON: Yes, I can totally understand that.

A MCDONALD: But I believe that there was always an element within the Air Force that kept saying to the Ministers we must do it on price, we must do it on price. And I know that Joe continually articulated we must do it on the longevity of the aircraft, on the ability for the people trained in that to move into advance fighting.

L JONSON: But presumably cost must always be a, should

always be a consideration.

A MCDONALD: Yes, but in the model, a model done by ARMSCOR, there was a model done by ARMSCOR that Niall Irving and Richard Charter had access to. We had access, but they were running it. And when you did all the points we still come out on top. With pricing, with price, what someone is giving you, what someone I believe is giving you, is a situation that if you just looked at this on cost and cost only, the Aermacchi beat us.

L JONSON: Well, it's difficult because our research is pretty varied. I mean, we've seen a number of different documents, which include documents from the Ministry of Defence in South Africa, and we've seen the graphs and the models and the tables which set out all the different criteria, and we've had an explanation of the criteria from various people, and our understanding is that cost was a, cost originally, quite rightly, was a consideration, and all the other factors offset through life-cycle, spares, everything like that, but when it didn't come out on top, and this doesn't apply to Gripen, it was only in relation to Hawk, when didn't come out on top, the minister then, as a, well it looked as if it was as a result, certainly shortly afterwards, said, right, we'll take out cost and then see who wins. And Hawk won.

A MCDONALD: Well I think whoever is describing that process to you is giving a description to it that I don't think is 100% accurate.

L JONSON: Okay, well-

A MCDONALD: My understanding, my understanding was that when they did the evaluation, that we did not come out well on cost. We did not come out well on cost but when you took cost out of the equation we won on every aspect. Particularly we won on the time it took to take black pilots from our configuration to the fighter configuration. We came out so strongly on that point, right? When you put it all back into the model, we came out on top. But Joe had, what the message, not Joe but the Minister of Defence, when they told us, and British Aerospace knew this and Kevin knew this, and I had a meeting with Kevin, that we substantially had to reduce the price because Joe wanted the model, wanted the overall evaluation to look a bit more balanced than it came out, but we had won on merit. And can I just say something to you?

L JONSON: Was this before or after down-selecting?

A MCDONALD: This is before, we got that message before, that we would have to address price, that we would be, that it would probably come out in our favour, but make no mistake we would have to address the price. But could I just make this point to you? Aermacchi was quoted against us in Australia, which was only about eight months, nine months before, Robin Southwell ran the Australian campaign and I was at, you go and look, exactly the same process has happened in Australia that one other grounds the Aermacchi

is the cheapest, much better cost of airplanes, but the Australian Air Force selected Hawk for all sorts of technical operational reasons, and all I can tell you from my knowledge, which is very, very detailed, probably more detailed than anyone you're interviewing in terms of whose got a particular viewpoint, but my knowledge was so great because I knew the people who were doing the technical evaluation. Sir Patrick could name you every person on the technical evaluation team, so could Niall Irving. The Air Force recommended Hawk to the Minister; the Air Force recommended Hawk to the Minister. It wasn't the Ministry of Defence's decision to take. Now, when I say the Air Force, I mean those factions in the Air Force that were in control, not those factions in Air Force that were being disadvantaged and moved out of Air Force because they were thought to be in alignment with the coup d'état that I discussed earlier.

L JONSON: Right, I think, our information is different than yours.

A MCDONALD: Yes it is.

L JONSON: Our understanding is that the Air Force didn't recommend the Hawk, but it is obviously something we need to go-

A MCDONALD: If you interviewed Willem Hechter, Willem Hechter, in a public forum, after the down-select, acknowledged openly that he had, that the Air Force had recommended Hawk. He publicly

said so. And in the, when this came up once before, and Thabo as president at that stage, asked for review of the process, undertook a parliamentary or a defence review process, I don't know the vehicle, Stuart McIntyre knows this chapter and verse, you know, Stuart and Niall, you know, I haven't talked to these guys on this in a long, long time, but you know, just following newspapers, but they came out, and Willem Hechter at the time of the down-select, at the air show, at the, it was announced at the air show, it was announced at the air show, I'll tell, when the down-select was formally shared with us, or the first indications we got would be at the, oh yeah, at Dexer, at the Defence Exposition in Dexer, which was November in 1988, which was held at Air Force base at Waterloo in Pretoria, the announcements were made in terms of what was down-selected and it came out, the down-select, in favour of the BAE Saab Hawk was announced at that. However, Jay Naidoo, in private discussions with myself and Kevin Smith at that time, in November, at that conference, indicated to myself that considerable reduction in price was required on both aircraft if, on both aircraft, if final contracts were to be awarded. So the down-select was conditional upon a reduction in price.

L JONSON: Right.

A MCDONALD: It was not ... and that was conveyed to us by the chief negotiator, Kevin and I sat in that

discussion.

I lobbied Dick and Mike to agree to drop from the advisor arrangements those parties who had not made real contribution to the down-selection process, and both Dick and Mike agreed that these parties still be included for their support because it may be required to help turn the down-select and to secure contracts. At that time, after that November meeting, I went back to both Dick and Mike and asked them to, we need to address the price. That's how critical we took the price, and that's how critical we took the message. But remember, the decision of down-select was not Hawk and Gripen, it was Hawk and Gripen subject to a substantial reduction in price. So it wasn't, the minister was saying I can hear arguments for the Aermacchi or the Defence Air Force, I can hear arguments for Aermacchi, but this is the best aircraft to take us through black pilot training, on to fighter jets, and if we can get the price right and get the models right then we're going with you. And that was clearly the message. But William Hechter, at that meeting, announced, he stood up and talked at that meeting, and when we announced there was big cheers and parties, and he told that the Air Force had recommended the Hawk and the Gripen as the way forward, and that's the Chief of Air Force.

L JONSON: Okay well we will-

G MURPHY: We need to obviously look into that and research

that a little bit more. As a matter of interest, you are referring to a document then, and was it yesterday? They are your notes?

A MCDONALD: It's my aide-memoirs. When this all came up, what happened, when it all came up and Peter asked me to briefing notes for him, and just, could I download everything that was in my head about key personalities, timescales, so I did that to help him.

P PATERSON: When I met you-

A MCDONALD: When he met you-

G MURPHY: That's what you were reading, okay.

A MCDONALD: This was my download notes to him.

P PATERSON: I just asked for what I call a precognition. A chronology of, a chronologic-

A MCDONALD: A record of events that led to me winning the South Africa for them, and he said just put, just put any thoughts you have.

L JONSON: Would you be alright-

G MURPHY: Would you be prepared to let us have a copy of those?

P PATERSON: I'll have to read it, but.

G MURPHY: No doubt it will cover many of the things we've discussed, but it-

A MCDONALD: Well I don't believe, I don't believe I've any objection to you, because I think I've shared, I've shared as much as I can-

P PATERSON: And more.

A MCDONALD: As much as I can. Can you let us read it? He will tell, I mean, I don't want to, I'm conscious of what I've signed, and I have not in

any way intentionally misled, I've been as open as I can, but I'm conscious I've signed, I've said that if I've misled or anything. So I don't see there is anything contradictory here to what I've said, but if you don't mind me-

G MURPHY: No, but it's just that it may well help us even more. That's the only reason that I'm asking.

L JONSON: Can I just take you back to Brookland-

A MCDONALD: Can I leave him to, can I, he either gives you that an expurgated version, which will be taking out anything if he thinks that I am contradicting myself, and he will discuss that with me and we will give you an explanation as to why there are apparent contradictions.

L JONSON: Okay.

A MCDONALD: I'll let, if you can deal with him and trust that he will tell you if I've made changes. I've no intention to mislead or deceive.

L JONSON: No, it's fine. I mean, as I say, I just want to try and crack on, otherwise we are never going to finish. Just going back to Alan Curtis for a minute, his vehicle was called Brookland, he also had another vehicle called George House Holdings I think.

A MCDONALD: Yes.

L JONSON: And if we look at the material we gave you on Brookland, I think there is a page 74, DOCMan 009914000121, there's a request to amend, sorry, it's pages 74-76, the proposal itself is in respect of George House Holdings and Kayswell. I think we've seen this document in the Kayswell

agreements as well. Is that your writing at page 76?

A MCDONALD: Yes.

L JONSON: Re GHHL discussions to commence at 0.25%.

A MCDONALD: Yeah, discussions to commence at, yeah.

L JONSON: Do you know what happened to George, why the change from George House Holdings to Brookland? Was it a predecessor or did they run at the same time? Or was it an Osprey/Huderfield kind of agreement?

A MCDONALD: Yeah, see, if I, I need some, this is going back, I also called Brookland is Alan's company, it was Brookland's Racetrack he had been involved in the sale of Brookland's Racetrack years ago. So when I heard the name Brookland's I immediately associated it with the Alan. The George House was one of the, one of the big buildings on Brookland's.

L JONSON: Right.

A MCDONALD: So when I saw George House I immediately knew that was in association, so I always thought there was one company, Brookland's, and then I saw George House, so I don't really know whether one led into the other. Did they amalgamate the two? I mean, I don't know.

L JONSON: I wondered. I don't-

A MCDONALD: To me it's Alan Curtis, the same person. Whether it was then broken into two companies I don't know. Hugh would be able to answer that. But Brookland's and George House Holdings, to my mind, were, are both associated with Alan

Curtis.

L JONSON: Okay. Fine. The next thing I wanted to ask you was, you talked very briefly yesterday about the Airborne Trust in South Africa, and a donation by BAE in respect of £500,000.

A MCDONALD: Yes.

L JONSON: Was any more money donated to the Airborne Trust apart from that?

A MCDONALD: To my knowledge, no.

L JONSON: And do you know, did you have any particular involvement with it yourself?

A MCDONALD: Well, I recommended that we make that donation.

L JONSON: Why did you make that, just out of interest?

A MCDONALD: Well, because when Joe was lobbying me about the fact that we were only seen as Osprey Aviation, who is an old establishment, all white, when British Aerospace had no real presence, he said you really need to do something of major substance down here to establish your good corporate credentials as a serious organisation, and he suggested that one of his biggest issues was, having amalgamating the forces, he'd a number of people who were out of work and they wanted to set up camps where people could be retrained in various trades, and the Airborne Trust that he was setting up with Alan Curtis, which was similar to what was going on but opposed to prisoners this was going to be, he was going to do that, and he wanted British Aerospace to support that initiative. And he thought it would be in our very best interests

to do that, and what he meant to me when he said to me he essentially wasn't, he was going to give us a Hawk and an aircraft deal but it would just position us as seeming as a respectable regime in the new South Africa, one of which was prepared to stand up and accept as a corporate citizen, and from that we also went on to establish BAE South Africa at his recommendation. So Joe was concerned about dealing with British Aerospace when it had links with the old Apartheid regime. He wanted British Aerospace to come forward and step up. And he spoke to, it wasn't, he spoke to Dick about this, he spoke to Mike Turner about this, but, so getting it through was very easy because he'd already lobbied them.

L JONSON: Were any of the, did you do ever, did you say, have conversations with Mike Turner and Dick Evans as well?

A MCDONALD: Yes, I met them when they came to Farnborough the first time. He probably spoke to him before I did when they first came to Farnborough, and spoke to them. Dick visited South Africa, went to see the Minister, and I think when Mike Turner did his visit to South Africa I'm sure he saw the Minister, and when Joe Modise came to London he saw Mike Turner and Dick Evans. Yes, so-

L JONSON: Were you present during those conversations?

A MCDONALD: I was present when they met.

L JONSON: What kind of conversations?

A MCDONALD: Well, it was just general about, you know, working through competitive tendering and well done. I would prepare the brief for Dick and tell him, you know, keep it high level, just, just be courteous and just ask if, what's, I always asked them to just find out what he thought the timescale would be, because we were always interested to know how long it was going to take, but it was all very professional, you know? I mean, what I've heard subsequently is that Dick and Mike didn't really know what was going on in South Africa. It was all left to me you see? They knew chapter and verse what was going on, they got the monthly reports, and they stuck their noses in when they wanted and pulled out all the time, so they were as engaged in the South Africa programme, if any of these others - if you talk to Sir Charles or anybody I've ever worked for. Whoever I work for is exceptionally well-briefed, and they were exceptionally well-briefed in all that was going on.

L JONSON: The Airborne Trust, were any of the other agents involved in that?

A MCDONALD: None. You mean, any of the agents we've discussed? None that I'm aware of, no.

L JONSON: Okay. So, what about Richard Charter?

A MCDONALD: Oh, I'm sorry. Richard Charter and Alan Curtis were in conflict from day one because Richard was jealous of the relationship that Alan Curtis had established with Joe Modise. And Richard was always trying to muscle in and get friendly

with the new ministers, including Joe, and every time he would do that Alan would devalue Richard's currency with Joe Modise.

L JONSON: Right.

A MCDONALD: So I had this problem to manage, as I said. So I said to both of them independently that we can't have this, where one is undermining the other, and you can't try and steal Alan's influence when Alan's got it, Richard, but you can, he said, 'I need to have a relationship with the Minister if my business going forward and you can't constrain me in these ways.' But I said well, let's see if we can work it out. And I talked to Alan and he's a wise old man, a wise old owl, as I would say about Alan Curtis, and he recommended that we make Richard chairman of the Airborne Initiative in South Africa as a way of-

L JONSON: This is the Airborne Trust?

A MCDONALD: Airborne Trust. It's the Airborne Initiative in the UK and Airborne Trust, it's confusing, but one's a trust and one's an initiative, but the South African element of Airborne Richard became the Chairman of.

L JONSON: Okay, what about Basil?

P PATERSON: The UK ones the Airborne Initiative.

A MCDONALD: Yes.

P PATERSON: Based in Abington.

A MCDONALD: Right.

L JONSON: What about Basil Hersov?

A MCDONALD: No, no, not to my knowledge. Unless Richard

Charter engaged him in it. Not to my knowledge; I was never aware that he was anything to do with that. Although, Alan Curtis, I think, through Joe, got to know Basil. I heard Alan Curtis, I never mentioned Basil to him. Richard knew about, because we discussed earlier about, I think Alan asked me once about Basil and I just kind of feigned ignorance.

L JONSON: Right, and in terms of Curtis, who, Curtis obviously went and he was really there lobbying the minister. And you've already said there are no written reports or anything like that. But why, why would there be no, just to hammer this point for a moment, why would there be no written reports about what Curtis had done? And it's not just Curtis.

A MCDONALD: No, but see, in this whole, if you examine any contract with British Aerospace involving any agents, there are never notes taken, guidance notes, governors, there are no minutes taken or records kept. It was just, the culture was never to do that. And if you go and actually look at the mapping process and the monthly reports that I put in, you'll see that I was a reporter, I was someone who liked to document things. But in this area it was just a no-go area.

L JONSON: Why?

A MCDONALD: It was just the culture of the company did not want any of these matters ever put on record.

L JONSON: Why did they not want them? I mean, as I say,

there is always a number of reasons for things.
Why do you think?

A MCDONALD: I don't think there is any one single reason why not.

L JONSON: Alright, then give us one.

A MCDONALD: But a number of reasons I think. First of all because, as I've said earlier to you, there is confidentiality reasons and some of these agents were working for a number of parties and we didn't want to in any way become public or generally known. And other times, I'm sure the intention was, the intention was if absolutely necessary, some of these people may have to take extraordinary steps to help us win business, and that might include incentivising key decision makers financially, so that, you never want to have that on record that it was every even discussed. And certainly the company did not want to expose any of its officers. It was quite happy for its officers to pick an agent, but it then doesn't want the company officer exposed any more beyond that point. And so any written correspondence beyond the point of selecting the agent could have given exposure to the company officer. So I think for those sorts of reasons it was never, ever encouraged, and discouraged indeed. It was discouraged.

L JONSON: Would Curtis have brought to you, in terms of give his verbal briefings back to you, or would he go to people like Turner or Evans, or-

A MCDONALD: He would, Mike, well because of the way Alan

Curtis operated, he called in to see Dick and he would bump into Mike regularly, but officially, officially he reported to me. Officially he reported to me on the campaign and did report to me.

L JONSON: How often do you think?

A MCDONALD: Oh, I saw Alan every time, well, when I was in South Africa he was in South Africa. He spent a lot of time in South Africa. His son, his son had a safari business down here, so he spent a lot of time in South Africa. When Joe came down he invited me in fairness, all the functions, the Airborne functions he had, the Airborne Initiative functions he had, and Joe was invited to all of them, but he had all sorts of MP turning up to these things. I mean, Alan could put together a good dinner with serious players there. He introduced Joe to the chief, we had the Chief of Air Force there, the UK Chief of Air Force, Chief of Defence staff at dinners Alan organised, and he was, he was, it was helping Joe establish how to describe our comfort zone of being in defence environment, you know, at a sophisticated level, and he came and he, and Joe, that's when I started getting involved with him, he was already involved with Bob Easton.

L JONSON: Right.

A MCDONALD: He would, he'd set up the meeting. He knew Bob Easton and set up the [inaudible]. He'd set up the things he approached, I think, I don't know

whether it was Dick Evans or Mike Turner, but I think it was Mike Turner that asked me to provide the aircraft to take him up to, so that's how I got to know him. So he was networking at that level, and knew Joe before any of the rest of us.

L JONSON: Lovely, okay. Well, I think we can probably move on to Arstow can't we? There's only a few, this is Alex Roberts obviously, there is only a few questions that are left with respect to him, because I think we covered an awful lot yesterday, and then we're going to move on very briefly to Nabil Hijazi, although I think it will be very short, and then we're going to move on to, finally, to Tanzania. Gary do you want to lead off, or I don't mind, whatever.

G MURPHY: Yeah, I'll take, Arstow, save, not very much though because we did discuss an awful lot yesterday. Can we go first off to page 96 in the bundle, which is DOCMan reference 012452000121? We see there a proposal to amend, signed by yourself, 28th October 1998. We can see here that there is a number of amendments by the looks of it in expenses in relation to South African activities. Advanced funding of 75,000, and I can't quite read the last one; what is the last one? Hawk requirements-

A MCDONALD: It's advanced funding of seventy... against Gripen and Hawk requirements.

G MURPHY: Oh, okay.

A MCDONALD: In brackets, '(to be paid from final payment of

existing) '- and I can't even read my own last word, so-

G MURPHY: It would appear, and I'm not sure I've got the document to show this, but Alex Roberts was actually on a retainer in the initial stages of his agreement and it would appear that he's been taken off a retainer and he's receiving advanced funding. Do you know why that was? Was that part of the negotiations that you were involved in?

A MCDONALD: Yeah, no in fact Alex had been working, he was going down to South Africa, well, when I first got involved, well I knew Alex as I explained it, he was in South Africa in the early days, very early days, upset with what was happening with GEC, meeting with Joe, you know, meeting with various other ministers, and trying to proposition shorts of Belfast. He was looking to see whether.

L JONSON: Is he a consultant for shorts?

A MCDONALD: No, he was, he was an advisor to Bombardier who owned shops, but he was also looking to see if there was any monorail opportunities, and it was a much wider, he had a much wider brief than just Shorts, but he did represent Shorts, was in the Ministry of Defence, and you know, I bumped into, he was everywhere. Alex was in Singapore, he was everywhere. He was, he had been in charge of global marketing in fact for Bombardier and was now consultant, being his age he was a consultant. And I used to bump into

him in Singapore and Malaysia. We used to share, you know, shoot the breeze if you like about what was going on in all the campaigns, and in, he and Dick Evans helped put together the MOU in Malaysia way, way back, which was a massive MOU.

This was back 15 years before. So he is well-known to Dick and well-respected, well-regarded. He'd been put forward to be head of defence twice before Charles got the job and he had recommended, his recommendation, it wasn't British Aerospace's recommendation, had given Charles the kind of push that was necessary to get him into head of defence sales, so he was exceptionally well-regarded. I'll give you another example. In the Foreign Office when Anwar was jailed as the Deputy Prime Minister by Mahateer, and the Foreign Office and people in the Foreign Office wanted to protest through government. Alex - I was at the meeting where Alex took on, it was all the people who were involved from all the big companies, when he took on the Foreign Office officials and told them they were right out of order interfering with the legal process that was going on. It was going through courts, and you know, they would do a 10-year damage to relationship if they criticise Mahateer at that point, and the Foreign Office backed off of their plans of doing so. He was a very strong force, a man of great office and influence, and when he started

getting involved, and he agreed, he told me, he laid out the strategy for me when I was kind of, 'What do we do?' Mike and Dick Evans advice was 'Don't waste your time in South Africa, there is nothing doing down there, you know? Robbie's just shooting the breeze, he's, let him pasture out. Don't waste your time in South Africa.' When I bounced that off Alex, he said 'Well, that's probably right unless there is a fundamental change. What we need to do, and I've taken you through the process,' and he said 'and if you can get Charles let's see if we can do something.' Well, we started doing something. One year went by, two years went by, and all along I wanted to formalise his arrangement because I knew he had a formal arrangement with us with Malaysia, and I wanted to formalise his arrangement.

L JONSON: Was he getting any money from BAE at that time?

A MCDONALD: Well, we was, when he did work for BAE under his other agreements, he picked up expenses and I think either I'd arrange with Hugh that any expenses he incurred in South Africa he could claim, and it was always understood. But, and because he was already down there a lot, I know he never claimed expenses. I mean, I'm not saying he never claimed expenses, I'm just saying on all the occasions he was in South Africa he didn't charge British Aerospace for them.

L JONSON: Right.

A MCDONALD: Because he was already down there representing; and that the agreement. Where he said he was representing other countries and he could do something, we'd talk to Joe, we'd do that, so it was a kind of, you know, Alex was much more concerned with success fee than getting paid expenses.

L JONSON: Right.

A MCDONALD: So when we got to this agreement, we'd already understood, I remember him saying to me 'What's it worth to you guys for me to create an opportunity for your programme down here? What's it worth to you guys to do that?' And I'm thinking, you know, in the context when he asked me I'm thinking people are getting seven percent, two percent for effectively nothing, so I tabled to him, I think it was at that time one and a half percent, saying how about a one and a half percent deal, two percent, I think I might have said, I may have said 2%, I can't recall the sequence of it all, but it was never more than 2%, I think, in line, but I think it was one and a half from what my memory was.

L JONSON: But he'd already received, he'd already received 75,000 before the first agreement was signed. That's what we've, you won't see that because we've never received the documents. They are not all included in your pack, but we know that before the October 1998 agreement was signed he had already received 75,000.

G MURPHY: In fact he received in on the 30th of October

1998.

A MCDONALD: Yeah, well, that-

G MURPHY: And he received some more in December.

L JONSON: I think he received some, I think in the name of Primula actually, Gary, because when the October agreement was signed, it was at 1.5%, with 75,000 within 30 days, which was that payment, and then the rest of it is how the fees are going to be paid out in terms of timing. In fact, when there was the original proposal in January 1998 which was proposed by Steve Meighan?

A MCDONALD: Yeah.

L JONSON: Who, was he back from DESO?

A MCDONALD: We had, I'd, yeah, no we seconded, we recruited him from DESO.

L JONSON: Oh, alright.

A MCDONALD: When Charles left, no, it couldn't be Steve Meighan.

L JONSON: I haven't put it in, unfortunately, but it is him. He signed the proposal January 1998.

A MCDONALD: Oh no, right, sorry, I was thinking he left DESO the same time as Charles, but no, his term of office came to an end halfway through Charles' regime, so we recruited him. Yeah, we recruited him. He knew Alex, he knew Alex from, he knew Alex better, I knew him personally but he knew him professionally better than me because he dealt with him through Ministry of Defence on many things.

L JONSON: But at January 1998 when they were all, you were

kind of putting the agreement into practice, it was clear that 75,000 had already gone to Alex Roberts in one guise or another. That's what it said, it says in Steve Meighan's original proposal. Do you remember how that came about?

A MCDONALD: Well, I was, when I saw this 75,000 I can't, I couldn't recall the final amounts. In, when Alex was visiting, when we were trying to establish good corporate citizen credentials down in South Africa, there was one event that I can recall, and I believe that Alex, it was something that Stuart McIntyre had got us involved in, where there was to be an ANC rally, and that, a similar rally, they were having a child's festival where the kids would be looked after while the, and they'd, Stuart had stupidly agreed, without asking a question, what, would BAE pay for the Coca-Cola for the event, and Stuart said 'I'm sure we will.'

So it was then assumed that we were paying for the Coca-Cola for the event, and when that was put to me I said, 'We can't pay a political rally, for Coca-Cola at a political rally, BAE,' I mean, too bloody overt that, so we can't be seen to be paying, and I believe what we arranged was for Alex to take the money down and pay it. I think that's what happened, I can't, I'm almost sure that's what happened, but I can't 100% recollect because it was just a detail of many things that were going on in the campaign. But I think Alex will have taken

75,000 down to South Africa and paid for the Coca-Cola. Because then it came out that BAE, I mean it was a waste of time anyway because it came out that BAE had paid for all the Coca-Cola for thousands of kids.

G MURPHY: That's a lot of Coca-Cola.

A MCDONALD: I mean it was thousands, it was 10,000 at the rally or something. It was thousands of kids. It was a massive, it was the massive, it was one of the rallies for the, it was a massive ANC, I'm trying to think, it was a Thabo, it was one of the rallies that Thabo putting himself forward, you know, to become the next president and was going around re-establishing his credentials with the ANC, and it was told, you know, because he didn't really know BAE, and you know if we could do something like that, and Stuart was agreeing all sorts of stuff. I mean, he was trying, you know, we built the running track outside of Durban, we funded all of the development of a running track in the township, which is all part of our corporate citizenship initiative. Where it was too overt politically, I was embarrassed by that and we used Alex's good offices, on that occasion and I'm sure on one other occasion to take care of the difficulty.

G MURPHY: I'll have to stop you there. The time is 15.20. The time elapsed counter is showing 45. It's the end of the tape.

(End of Tape 13)

TRANSCRIPT OF INTERVIEW HELD AT TODS MURRAY LLP, SOLICITORS,
EDINBURGH QUAY, 133 FOUNTAINBRIDGE ROAD, EDINBURGH EH3 9AG ON
WEDNESDAY, 15TH AUGUST 2007.

CASE REFERENCE RLI02

TAPE 14 OF A BATCH OF 14

PERSON BEING INTERVIEWED: MR ALLAN MCDONALD

PERSONS PRESENT:

MR GARY MURPHY	-	SERIOUS FRAUD OFFICE
MS LYDIA JONSON	-	SERIOUS FRAUD OFFICE
MS BRENDA SMITHWHITE	-	SERIOUS FRAUD OFFICE
MR PETER PATERSON	-	SOLICITOR

B SMITHWHITE: This tape 14 of the Section 2 interview with Mr McDonald. The time by my watch is 15.40. We've had a short break. Please can you confirm, Mr McDonald, that we have not discussed any matters relating to this case during the interval since the end of the previous tape?

A MCDONALD: I can concur that we haven't discussed any matters and everyone is still present.

B SMITHWHITE: Thank you.

G MURPHY: I just want to pick up on one last point for a moment on Alex Roberts. I think we've already discussed today, or maybe yesterday, that Dr Mji was brought on board to help with issues with

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Corrected Transcript

relation to black empowerment to get some high level political access, but he, I think you said he didn't actually do much to-

A MCDONALD: Nothing.

G MURPHY: Nothing. I think you also went on to say that over a period of time gradually Fana Hlongwane ensconced himself into that position, if you like, and was used in a similar way. How was it that Fana Hlongwane got paid for those services?

A MCDONALD: When Fana left the government-

G MURPHY: Yeah, which was when?

A MCDONALD: Would be when Joe retired, which would be just after the down-select and it would be before, so it would be about, I would reckon, I don't know the exact date, but it would be about early 1999 he would leave government. He had left government by the time Kevin and I went down for Thabo's inauguration. He'd left government by the stage. When Thabo, when Fana was in government he hadn't been paid for a long period of time and when he left government he got a substantial payout and he was a man who had a great independence, so he wanted British Aerospace, he wanted to understand how their arrangements were worked, and it was told that they were worked on success fee basis, so he understood that. So he put himself forward, well, he asked me to introduce him to Kevin as someone who I believe could help with the black empowerment and the offset, because he already had prepositioned himself, I think, to go on to

the board of Denel. That was happening about that time. So he has put himself in the defence industry, he was putting himself into key, and moving the defence industry, and BAE was looking at taking acquisitions and had already done so with ATE and a number of the defence industries, part of our long-term strategic plan. Also our idea, if we invest in the defence industry you can put that against your offset. You also can use the defence industry for expanding your own defence network. So that was the kind of logic we were using. Fana, he knew that, he talked through it, and so he, when I introduced him to Kevin, Kevin was so impressed, I mean so, I can't tell you how impressed he was with Fana. I don't, Fana Hlongwane is one of the most impressive human beings; he speaks about 10 languages, he is highly intelligent, he is an advocate-

L JONSON:

So did he get a consultancy agreement then?

A MCDONALD:

Well I don't know - no, no, I know he didn't because at that stage, because the price was already submitted and we were under great pressure to reduce the price, I remember Kevin saying he was going to have to revisit all, and I went through all the briefings and all this. Kevin told me then that he was going to ask Alex to take care of Fana; as part of getting a general reduction he asked Alex to take care of Fana. They already knew each other; they had come into contact because Alex would visit the

Ministry of Defence to see Joe on Shorts of Belfast, so they already knew each other, and so he was going to ask Alex, and I said that was a good idea. I thought that was good.

G MURPHY: Take care of him in what way?

A MCDONALD: In terms of we had already all the agreements in place and, had submitted an indicative price as part of the down-select, got the message back loud and clear to get the price down, you are not going to win it on the price, so coming up with another consultancy at that stage was just, you know, against the grain. Kevin was going to have to go and visit all the consultants and get a price reduction, you see? And he said, he said that he was planning to ask Alex or, I can't recall whether, I honestly can't recall in the context whether I said or he said, but I said oh you should get someone, one of the agents, like Alex, to take care of Fana, I could have said or he could have said, I can't recall which one of us said it, but the idea was don't add another agency at this agreement, it's just too complicated, just get Alex or, I think I said Alex because he was the one I trusted the most, or he asked me who I would get and I think I said Alex, because he was the one that I trusted the most. He was the one I knew, Fana would not take any monies knowing Fana, from any of the other parties, I just know that. He would just never countenance that because he was highly suspicious, being an advocate highly

suspicious individual. But I know he liked Alex; he got on well with Alex, so I thought that that was a good arrangement. And then I left it to them, I didn't get involved.

L JONSON: You don't know how they decided on the amounts that would be given?

A MCDONALD: No. Alex Roberts, I mean, that was Alex's business.

G MURPHY: So are we saying here that he was going to be asked to part with some of his commission?

A MCDONALD: What was happening was at this time Kevin and I had a meeting, I have in my notes here that we met with Jay Naidoo. He told us we'd have to substantially reduce all the prices.

G MURPHY: Yeah, yeah.

A MCDONALD: Kevin and I were already deciding, thinking how we should go about it, and one of the things we all agreed is that we were going to have to reduce the cost of the aircraft, but we also had to hit the agents, right? At the same time, just about at that stage, I'm leaving the company; within a month of that meeting I'm leaving the company, Kevin is taking over, I gave Kevin an extensive briefing on all matters, and when it came down to the black empowerment issues and the fact that Mji was no use and in fact that Fana had already indicated that he was going to be leaving government and he was going to, being poached by other people, I said to Kevin, 'You should meet him yourself, make your own judgment, we need to get this guy on side in

my opinion.' Kevin thought he was the bee's knees-

L JONSON: By why is Alex Roberts losing out on it?

A MCDONALD: No, no, no. I don't, well I don't know that he lost out because you are telling me something I don't know. What I understood that in the reduction, when we went to all the agents to ask them for a reduction, and I think in terms of who did I think would be the most stubborn in terms of agreeing or disagreeing to reduce, I think I said Alex will be ... We'll have a challenge to get Alex to reduce. I think it was in that context I said we should ask him to take care of Fana in the process. We should ask him to take care of Fana as his contribution to the reduction.

G MURPHY: Oh, okay.

A MCDONALD: So you can actually answer the question I think yourselves by saying what was Alex's final payment? What was he on before that? You see, the final payment-

L JONSON: He started off at 1.5-

A MCDONALD: And he stayed at 1.5.

L JONSON: Yeah, he stayed at 1.5.

A MCDONALD: I think his contribution was that he took care of Fana. I know that's what happened.

G MURPHY: So we'd need to speak to Kevin about that.

A MCDONALD: Yeah.

G MURPHY: First off, anyway.

A MCDONALD: Kevin will have agreed that. I never agreed it. I recommended that, when I say recommended it, I

recommended that we get Fana onboard. How do we do that? Kevin says, 'How do we do that while reducing the agents?' I said, well, go to the agents, ask one of them to take care of Fana. You can imagine my cynicism, lots of them are getting, my cynicism was that a lot of them are getting paid a lot of money for doing nothing. Then he said to me 'Well which agent do you think?' And then he had a problem, because there is no way in a hundred years Fana would deal with any of these other people except I thought Alex.

And I know that Alex represented us, because later on when Alex was ill, Fana was contacting me to try and get Alex to pay him his money, and Alex was seriously ill in hospital and Fana was so unreasonable, I mean so unreasonable. I mean Alex Roberts is seriously ill in hospital, apparently BAE had paid the money into Arstow. Alex was totally incapacitated; he didn't talk about money to anybody, all he could talk about was to survive his life, you know? And Fana was so unreasonable, angry with me on the phone, accusing me of all sorts with Alex. And I said, 'Fana, just, you know.' And I understand from Alex that when, after all of that he refused to deal with Fana and left it to BAE, after I think this was the second phase. After the first phase I think he took care of Fana well in the first phase, everything went well in the first phase and it was much later on, it was the last

communication I ever had with Fana, this is this row about, and I saw him in London about two weeks after that, and I told Fana I thought he was so unreasonable, I told him that Alex was ill, I told him but he didn't want to care. Then he accused, he accused me and Alex of trying to keep his money and do that and I laughed. And Alex at that stage, when I told Alex this, I said 'I'm sorry.' He said he didn't want anything to do with Fana from that point and I believe then passed the responsibility on to British Aerospace.

G MURPHY: Okay, that's fine.

L JONSON: Can I just, just two questions I've got before we move on to Tanzania. The first one is in relation to a document at our page 49, which in the general documents. It is one thing I think we wanted to cover, Gary, before we left this, which is, it's DOCMAN number 011975000275, and it's difficult because there is a post-it note saying HQ Levy on the top, and it's not clear who has written the document. But it appears there was a meeting with Pat Gosden who I understand was involved in the technical and certainly in the second, subsequent to the down-selection, he was involved in the negotiations.

A MCDONALD: He was the commercial, my understanding, he was the Wharton Commercial Director leading the negotiations on behalf of Kevin.

L JONSON: Right. Okay. Because here is a meeting with Pat Gosden, it's just the bit where it says

'Hugh Dickinson, Niall Irvine have now uncovered the extent of Allan McDonald's commitments which appear to be legally binding.' Do you know what that means?

A MCDONALD: Yes, well I think that when you, when you go and look at the, and then also 'Niall Irvine only tasked to look at issues try to approach transfer of commitment on Gripen.' This is, they've have gone and researched, it's just the language this person's decided to use.

L JONSON: Sure.

A MCDONALD: Hugh Dickinson has briefed them on the summary of what are all the legal agreements. Where I take exception to this, where I take exception to this is at this time, after I left, all of the agreements would have had to be reconfirmed, and I would not have proposed that.

L JONSON: Right.

A MCDONALD: I mean, Kevin and I agreed he went, he agreed that he would approach all the people to seek a reduction, so he took responsibility for that. And what this is, this 12% you can see later, is the summary of the outcome of what Kevin negotiated, which was not what I negotiated. When I left it was up at 17%.

L JONSON: Okay, it's the word 'uncovered', I suppose, that I just couldn't quite understand. Because I would have thought that Hugh Dickinson, and from what you've been saying, would have known all the levels of all the agreements at each time.

A MCDONALD: Yes, but he wouldn't, the reason they have

chosen that language, I'm just making an assumption, is that Hugh Dickinson was a secret within the company, so when you go and get information out of Hugh Dickinson, they've uncovered this, if you follow me. It's just the provocative language that's used, because Hugh would not normally share that with many people.

L JONSON: Oh, so it's not that Hugh has uncovered the extent of your commitments, it's that-

A MCDONALD: Well, it's Niall Irvine has uncovered, right?

L JONSON: Right.

A MCDONALD: And he will have uncovered it through Hugh Dickinson.

L JONSON: Okay.

A MCDONALD: See, Niall Irvine was only given exposure, as I said, to one or two parts of it, so Niall was then, let me tell you what I understand happened. Niall was then assigned to go round all the representatives by Kevin to seek negotiate, to seek a renegotiation. He was told by some of them, he wouldn't, some of them wouldn't even meet with him, refused to acknowledge that even the agreement existed.

Because this was all supposed to be so secretive, dealt with at the highest level of the company, and now they are finding someone like Niall Irvine, which then meant that Kevin himself had to go and conduct the negotiations.

L JONSON: Okay.

A MCDONALD: And I knew this because when Kevin, how do I know all of this? Because when I travelled to

the Thabo's inauguration, Kevin told me that he was having to go personally to meet all the agents because some of them refused to see Niall.

L JONSON: Right, okay.

A MCDONALD: So I think this is some months later.

L JONSON: Don't worry.

A MCDONALD: Yes.

L JONSON: Just again, one question in relation to Zomita before we move on to Tanzania, which is this: you said that Nabil Hajdezi contributed nothing towards the campaign.

A MCDONALD: Yes.

L JONSON: In fact he didn't even go to South Africa.

A MCDONALD: To my knowledge, to my knowledge.

L JONSON: And that his, the money that he received, which was about £8 million, was essentially as a result of work he had done on earlier Saudi-

A MCDONALD: Middle East. It was never explained to me what-

L JONSON: Well that was going to be my, do you know whether or not it was legitimate work that he did in terms of legitimate lobbying, or bearing in mind the comments, the candid comments you have said in relation to Saudi earlier, that this was, he had laid out financial inducements and this was-

A MCDONALD: I've no idea, I've no knowledge, I've absolutely no knowledge of why he had this entitlement, except it was explained to me by the two senior officers of the company that they had an obligation, Mike and Dick, that they had an

obligation to him.

L JONSON:

Okay.

A MCDONALD:

And that we had to meet it through this process.

L JONSON:

Alright.

A MCDONALD:

And it was just, it was just the way these things worked in defence, one would roll over to the other.

L JONSON:

Okay. South Africa must be pleased with that. Right, okay, well Gary, Tanzania.

G MURPHY:

Yeah, page 120 in our document packs, which is DOCMAN reference 009910000044. Now I understand that you were also the RMD for Tanzania. Is that correct?

A MCDONALD:

I had, I had the whole of Africa and Asia under my responsibility, right? Niall Irvine, I gave responsibility when he came on board to embrace all of Africa, but he was so tied up with the South African campaign, he was doing that one step at a time. And in the interim, Mike Turner was dealing with any other issues that came up, right?

G MURPHY:

Okay.

A MCDONALD:

This one came to me. Philip, I think it's Philip Riley, is that Philip Riley's signature?

G MURPHY:

It looks like it, yeah.

A MCDONALD:

This one came to me, told that Mike had wanted this. I didn't know any of the personalities, didn't know anyone, don't know anyone, can't help you, can't tell you the company, can't tell you anything. I know nothing. But I was asked to sign this urgently because Mike wanted to,

actually you can see there, 8/12, the day after I signed it, urgently approved, what is it? RMC, whatever this is.

L JONSON: RHE, Dick Evans. Already approved.

A MCDONALD: Already approved. So something was going on with the radars down there that they wanted taken care of very, and I have no knowledge. I can't tell you who the representative was, and I signed it because the process required my signature.

G MURPHY: Who asked you to sign it?

A MCDONALD: Philip Riley left it with Catherine Robinson, by the way Catherine Robinson is my secretary, CR.

G MURPHY: This is an ex-committee.

A MCDONALD: Yes. Cat, CM it was, but CR, I'm just saying I don't know whether she married. But anyway, Catherine Robinson when I knew her so it would... No, it was just left on my desk and I was, when I was shooting through the office, Catherine asked me to sign it, Dick had cleared it, Mike had cleared it would I sign it, and I signed it.

G MURPHY: Did you ask any questions at all about it?

A MCDONALD: No, none. Neglectfully, I didn't.

G MURPHY: Did anything jump out at you that seemed strange to you in relation to that document?

A MCDONALD: No.

L JONSON: What about looking at it now?

A MCDONALD: No.

L JONSON: Looking at the percentage figures.

A MCDONALD: No, look at what they paid Royal Ordnance figures, Radar figures, they were in the 33-35%.

If you've got a schedule of all the payments in that part of the world for Royal Ordnance through all the schedules, you'll find that that was the level of payments that was there. That's the level. Shocked me when I first went into military aircraft, sorry, defence marketing; shocked me then, but not in 1998 I wasn't shocked.

G MURPHY: Do you know what that 31% was being used for?

A MCDONALD: No, I couldn't tell you who the representative, who they were targeting, what part of the Ministry of Defence down there, who the company is, who the agent is. I honestly know nothing.

L JONSON: This is, not a direct criticism, but what was the point of you signing it if you weren't going to, if you weren't going to answer, I'm just trying to think of why did the company require your signature if-

A MCDONALD: Because I was technically the managing director in charge of Asia and Africa. And it would have set up an audit query if I hadn't signed it.

L JONSON: Right. What's the purpose of you having to sign a document like this?

A MCDONALD: The purpose is that this is the blessing of the managing director of the region.

L JONSON: And presumably, if you are meant to be giving your blessing, is that with the full knowledge of who the person is?

A MCDONALD: Technically yes, and if you said to me, I'm critical of myself when I see I've signed that.

L JONSON: So-

A MCDONALD: No, when you've got the chief executive, I mean, very unusual for the chief executive to get involved at this level.

L JONSON: Do you know why the-

A MCDONALD: No, there was some, Dick had been in charge of marketing before, he was group director of marketing before Mike, so you've got the two guys that ran marketing before me, both main board members, two top guys, operational executives, saying we need to do this, get whatever signatures are required.

G MURPHY: What would have happened had you not signed that?

A MCDONALD: They'd have done it anyway. They'd have done it anyway, but the finance people would have come back and asked where is Allan's signature, and they would have left it on my desk, and when I came back from South Africa I would have said, 'Well, what's this all about?' And I would have asked a lot more questions. Normally, normally, I am a lot more diligent. Normally. I think you've picked up one of my few faux pas in all of aerospace.

L JONSON: Is there, is there any level of commission payment that requires the signature of the chairman, over and above a certain level?

A MCDONALD: No.

L JONSON: So I'm just wondering why, as I say, why would Dick Evans get involved in something like this.

A MCDONALD: He was chief executive at the time remember. He was chief executive then.

L JONSON: Was he?

A MCDONALD: Yeah.

L JONSON: In '98?

A MCDONALD: Yeah, in that period.

L JONSON: So what's Mike, he's-

A MCDONALD: Mike Turner-

L JONSON: COO at the time?

A MCDONALD: Yeah, and head of group marketing.

L JONSON: Okay. Right. But, so he's the, he's the most senior person apart from the chairman?

A MCDONALD: Yeah, the chairman was non-exec in those days. When Dick became chairman he became executive chairman, but it was a change. Just about that time, Mike is, Mike is head of marketing and chief operating officer of the company. Dick's the guy that reports to his chief executive. The two of them obviously know a lot more about this than I do.

L JONSON: Yeah.

A MCDONALD: And they can, I mean they are the people you should be directing the questions to. They are the people that were pushing for this to happen.

L JONSON: But obviously we've seen that Dick Evans, from what you've been saying, has got personal contacts with lots of agents, and this is the only one that we've seen that he has personally got involved in, in terms of the ex-committee refer, agreement. Do you know, did you question why he-

A MCDONALD: No, no, I mean, when I say that Dick, Dick did not at this stage have a lot of contact with a

lot of agents. In his previous role as head of group marketing he'd know all the agents and all that was going on. And occasionally some would call in and see him, and he was always courteous to them, but he was passing that responsibility as much as he could down to Mike Turner and the five managing directors; so that's the process. But sometimes somebody would walk in, someone that Dick's known for a long time and actually enjoys his company. I'm just saying, putting a scenario, that's what could have possibly have happened, and says, 'Dick, we've got this deal, can you help?' He'll have phoned Mike and said 'Let's get this done quickly.' And Mike will have said yeah, because he will have known the background, he'll have told Philip Riley. I mean, Philip, what's unusual is Philip Riley filling in the form. He's proposed it, he's the first signature. So this is something that Mike-

L JONSON: Hang on, sorry, you say he's proposed it?

A MCDONALD: Well, 2nd of December. Philip Riley normally signed after the chief executive, after the, I'm saying, it's proposed to reappoint. See this is a reappointment, right? You've got Philip, yeah, I'm sure that's Philip Riley's signature.

L JONSON: It is Riley's signature.

A MCDONALD: Well he is the 2nd of December.

L JONSON: But does, does that necessarily mean that he was the one that was proposing it, or is it just that he happened to sign it first?

A MCDONALD: No, well yes, it's just that it is very unusual for him to sign anything until he sees the validation of the managing director, and I think what's happened is, what I can only assume has happened is that Mike has phoned Hugh Dickinson, Hugh got the form out, Philip's been asked to sign it and have told to chase round the rest of the signatures, just to legitimise it.

L JONSON: Okay. Because you obviously just said that you would have understood that Mike Turner wanted the appointment made, Dick Evans wanted the appointment made, but obviously as we can see from the dates, Mike Turner signs it a day after you. So when you had this on your desk it would only have had Riley's signature on it.

A MCDONALD: Yeah, but it was left at my desk, whoever left it at my desk, Catherine would have said, 'You need to sign this urgently.' I mean, I would not have, I would not in normal, in due course of events, have signed this without investigating. And if you go and check, normally I would not do this. The only basis that I would sign something like this is because I'd been asked to, to progress this urgently, by Mike Turner, by Mike Turner. That's the only way I would have not gone through my normal process. Catherine would have told me, and I can't confirm it was Catherine because I can't recall the conversation, but I've come, she's the only person that could have said 'You need to sign this urgently. It's got to go straight

to Mike Turner for his signature.' And that's how that, when I see this, it's exactly what's happened. And then when I see this, the RHE has urgently approved, already approved, well, there it is. A day after I signed it, they're saying that the chief executive, so this is to me one of the normal, where the system has not normally functioned and they have had the intervention of the Chief executive and Mike to make this happen quickly. But if you said to me, 'These radars, who's it going to?' You know? I can't even recall the document until I saw it today, and I mean I can't, I can't tell you what part of the armed forces, who is our representative down there, how long they've been, there, I couldn't tell you, answer any of these questions.

- G MURPHY: Who-
- A MCDONALD: It's not only country I ever visited.
- G MURPHY: Who within marketing would have been responsible for pursuing this, this deal?
- A MCDONALD: Well, with the demise of Robbie Roberts, and with the introduction of Niall Irvine, Niall was dealing, start to deal, ultimately it would have become his responsibility. But at that time, it was agreed that any of the other, like Algeria or anything to do with Africa, that we couldn't handle, it would go straight to Mike, Mike Turner, because Mike had previous,, he would like take-
- L JONSON: What about the business unit? Would they have been-

A MCDONALD: They would have been, they would have been pushing it, but they would have had to get, you know, if I, the business unit that was pushing these radars would have had their own commercial people-

L JONSON: Yeah.

A MCDONALD: Pushing this, and there probably-

L JONSON: Alan Ford I think is the guy. Alan Ford?

A MCDONALD: I don't know Alan. I don't know.

L JONSON: Jan Robjon? Mark Simpkins?

A MCDONALD: I don't know any of them; I don't know them. What division was that? Plessey?

L JONSON: Yeah.

A MCDONALD: Well they were a joint venture, so there is no place, I had very little exposure with plessey all my time with British Aerospace.

L JONSON: Do you know of any involvement with Rolf Rue?

A MCDONALD: Rolf Rue took over, Rolf Rue was an Airbus man working for Sir Charles and was recruited, I think after I left, to be in charge of all of Asia and Africa as opposed to Jim McDowell.

L JONSON: Right, but after Kevin Smith.

A MCDONALD: I think Kevin recruited him.

L JONSON: Right.

A MCDONALD: Because Kevin was, Kevin was boss of the whole, see, when I left Rolf Rue replaced me, but not immediately. Kevin stepped in as head of group marketing, he is group marketing, to finish the South African deal.

L JONSON: Yeah.

A MCDONALD: And I think Rolf Rue, who I've only met once,

but he used to work in Airbus, he was one of Charles' great guys in Airbus, and in fact I think Rolf may have come when Charles brought him from, when Charles joined back again at the merger, Rolf Rue would have come in at that point.

L JONSON: Right.

A MCDONALD: So, he then took responsibility for Africa, Africa and Asia I think. I can't, I think that's what Rolf, so he replaced me, albeit may be about 12 months after I left.

L JONSON: Right.

A MCDONALD: In that time frame Kevin did the overall responsibility plus the South African project. I mean, as soon as South Africa became a viable contract, you know, it was top priority in the company. Get that into the order books, you see, it's worth, in terms of share price and all of that, you see?

G MURPHY: Do you have any knowledge or experience of how business is won in Tanzania?

A MCDONALD: None. I have never visited Tanzania. I mean, I've been to many others, but Tanzania was one country I never, I never visited Tanzania.

L JONSON: Would you have any suspicions about the way Tanzania-

A MCDONALD: No, no, I mean, you probably, because you've been reviewing this you probably know more about Tanzania than I do. That's how, I think you'll see from everything I've answered that is honestly true. I know nothing about Tanzania.

I don't know, you know-

L JONSON: Well, just from reading the papers, it's not like South Africa, it's not, it's not heading quickly, or even remotely speedily towards first-world status.

A MCDONALD: No, no, and if you'd asked me, I mean if you'd asked me, if you're asking my view, after you'd sorted out South Africa and had stayed with the company, Allan and you'd have to deal with the rest of Africa, would you be operating a third-world process or first-world process, and I'll tell you honestly, I could never have imagined a situation in many of those countries where you could ever operate on first-world processes. You know, but-

L JONSON: But looking at that now, 31%, and I know you say that that's looking at Royal Ordnance, but Royal Ordnance is very small items, isn't it?

A MCDONALD: No, no, it's some heavy guns, Royal Ordnance, massive guns. No, no, sorry, I'm just saying that in the span of you know, percentages, in my time at aerospace, when I got into defence marketing, I was amazed at the span could go from 7% to 55%, you know, and the biggest percentages were down in the missiles, the radar, and then the guns, the Royal Ordnance side.

L JONSON: Why?

A MCDONALD: Because you could, because, I'll give you a good example. The unit costs £1,000, so let's sell it to them for £1,031. There's 31% uplift, or

£1,331, right? Versus, you can't add 31% to £20 million.

L JONSON: No, but that's my point about Royal Ordnance.

A MCDONALD: No, but this is radars as well. I mean, these radars will be cheaper than some of the Royal Ordnance equipment.

L JONSON: Well, but this radar started off at 88 million.

A MCDONALD: Oh, well.

L JONSON: As a radar, it's the A329 Watchman radar, and it starts off at 88 and over time, because the World Bank and various international organisations intervene to say it's too expensive, the final price, after much negotiation, came down to 40 million. So you can see how much went to the agent.

A MCDONALD: Well, oh yeah.

L JONSON: And I would think, with in mind, and knowing that 31% went to this Mr Vithlani, can you, can you think of any explanation?

A MCDONALD: None, none, it's just third-world practice. The extremes of third-world practice here, it's a classic example. And I'm sorry my name even appears in the document. No, no, I'm just saying, it's something that just, you know, but you'll find, for example, in Brunei and other places, so I'm not trying to evade anything. You'll find that I've put recommendations forward for 35-40% uplift gun equipment and that because that was what was willing to be paid, you see?

L JONSON: I've certainly seen evidence of larger

percentages on very small items when of course the uplift isn't so significant.

A MCDONALD: That, to me, when you have now told me the figure, I never realised the base figure of that radar. I mean, it's my ignorance, but I never realised it was so much and so much commission paid. That is an exceptional uplift. Exceptional. Just, just-

G MURPHY: You wouldn't expect something like that given your experience, not in your time.

A MCDONALD: I mean that's bigger than Saudi Arabia.

L JONSON: If that was a, if that was a legitimate deal with no corruption taking place, let's say that happened, that's happened. What type of services would you expect somebody to provide-
A MCDONALD: 100 years free support.

L JONSON: Right. So is that fair to say that it is totally unrealistic that that person was providing legitimate services to warrant that amount?

A MCDONALD: I don't know what services he, if he, now if you said to me what would, if that was to fund it would have to fund at 100 years, see. But if you said to me, right, this person has got to do, take on board the placement of the operation team, support it for 10 years under his organisation and make a 20% profit for taking all the responsibility on board, I would say yeah, that was probably the right sort of figure. But that's a very unusual situation to find an agent wanting to embrace all those

activities.

P PATERSON: I think there was one curiosity I noticed about it, this talked about overt and covert commission. So I don't know what the percentage was declared in the contract.

L JONSON: Well, that's, the overt side was 1%.

A MCDONALD: But you see it says here, 'and associated equipment and services to the Ministry of Communication and Transport.' This seems to me what I would have called a turn-key operation.

L JONSON: What's that?

A MCDONALD: Which is where they supply the equipment, they supply the engineers to operate the equipment, and they supply a support operation that will last five or six years.

L JONSON: No, they didn't do that.

A MCDONALD: I'm just, when it says equipment and associated services, you see, that's the definition. That seems to me to be more than just the radar itself, it seems to be a turn-key operation where they are supplying a whole load of services.

L JONSON: Who, BAE? Sorry, or the agent?

A MCDONALD: No, whoever the agent, that's what being supplied and to cover, I'm just saying, I don't, until I see the detail, the associated equipment and the services that go along with it, if they agent was going to refund all of that. But if he wasn't, and that was all to be included and 31% added to that, that's a horrendous uplift.

G MURPHY: And if he was, if he was going to fund all of

that and do all of those things, would you expect that to be laid down in an agreement document so it was absolutely clear what he was committing himself to?

A MCDONALD: Absolutely, absolutely.

G MURPHY: Yeah.

A MCDONALD: Absolutely. I mean he would, we would very clearly define as a contract, if you're saying to me he's a contract specialist engineer, aerospace, one of the ones, best trained they ever had, you would never set down, if it would, that's the kind of general summary here, but somewhere it would also be necessary to define 'These are the services that are required' to whoever, it says 'to the Ministry of Communications and Transport.' These are the services, this is your obligation, agent, and this is our obligation.

And whoever says, and somewhere it says who is supplying the equipment, who is supplying the associated equipment, his equipment, associated equipment, is normally tested in spares support, and the services, the manpower even to run it. It would certainly define who was that, and if it was all the company's responsibility, and then you get 31% added to the price, in my opinion that is one horrendous uplift.

L JONSON: And what is the only reasonable explanation?

A MCDONALD: Well, two reasonable explanations. Obviously one is that he was a greedy bastard and we were willing to go along with him, right, or

Mr Vithlani was actually obviously ensuring he got the contract by ensuring the key decision makers in the process were also rewarded.

L JONSON: But you say, let's just take the first scenario that he was just a greedy bastard. I mean, would the company really just pay 30%, 31%?

A MCDONALD: Well, let me just say, let me just say that normally I would have said no until I saw this memo today. Normally I would have said no.

G MURPHY: And that's the memo-

A MCDONALD: And this is the memo from Jules Pelissier which indicates to me, against the first contract phase of the defence contract, and these guys, pocketed \$30 million to the shareholders, so, without paying out anybody. It says to me there's a hell of a lot of naiveté going along, and this guy, what's his name?

L JONSON: Vithlani.

A MCDONALD: Vithlani could have convinced smoke and mirrors that, you know, I have to take care of this guy and that guy, and if we never ask any questions and if BAE were dumb enough not to ask any questions, I think it was something we were discussing, roped along outside, I'm now getting the impression that we were conned by many of our agents. So, I'm just saying, so when I said to you there's two possibilities, he's a greedy bastard, I think many of our agents, I'm now starting to get the impression, because I see it from a campaign that I run, that we were conned by our agents, that they actually got money

under false pretences.

G MURPHY: If an agent was to turn around to you and say, 'As part of my commission that I'm earning, I undertake to support the products that your being, the government is being supplied with, and I'm going to keep them provided with spares, etc., etc., over a five year period, and I'll pay that out of my commission, but let's not bother putting that in an agreement,' you said BAE would-

A MCDONALD: That is unacceptable to British Aerospace. Unacceptable. The auditors would throw it up straight away. The audit, don't forget, don't ever forget in this process that there is a financial dimension to it which is looking at the legitimacy of, everyone is trying to do things properly. I mean, everyone's trying, financial overview with legal overview. Everyone is trying to do things properly, and still deal in the real world, right? And the crime that has been committed, in my opinion, is not the one you're investigating. The crime that's been committed is the blame-

L JONSON: You're not going to say fraud on BAE are you?

A MCDONALD: No, no, the blind ignorance of senior management, not one to ask the questions and realising that ultimately that message gets out and if you're a great presenter you can present yourself as the greatest agent in the world, having to do all sorts of, paying all sorts of commissions, get into the confidence of the key

players, pick up large sums of money in the process, and not pay out anything and walk away.

L JONSON: Would you really, I mean, do you really think that the senior personnel are that naive?

A MCDONALD: If you'd asked me, if you'd asked me when we first sat down I would have said no. But if you ask me now I'd say yes.

L JONSON: Well, we need to do the sums on that. There are a lot of different ways that you can interpret that memo, and we may have a number of theories about how in fact bribes get paid, and not necessarily out of the money that people receive, but going back to, we haven't got a lot of time, but going back to Zomita, which is, as far as I can see a direct instruction by the very top to involve an individual for work that was not done on a particular campaign, would you think it's fair to say that this was, in relation to Zomita itself it was clearly a deliberate strategy to recompense somebody for something that is a totally different project.

A MCDONALD: Well, yes, yes, with one qualification. They always said to me that we may need someone like Nabil's help at the very end.

L JONSON: To do what?

A MCDONALD: Well, to get to the movers and the shakers.

L JONSON: In what way?

A MCDONALD: Well, if you had to influence a real, for example, if it was getting to the stage that, my example is that to get the contract signed and to get first in the schedule, there seems to be

an example now of the company facilitating that with a payment to Richard Charter. If you ask my view, that's what's happened here. That he's been given the facility to. Whether he did it or not I'm now starting to doubt. You see, I think he would have, but he certainly created an environment.

If there was a situation that required that, for instance, there was an economic crisis in the country, all sorts of things were being suspended and we needed one heavy hitter to go in and persuade the Chancellor of the Exchequer, if they had one in that particular country or whatever, "don't put this on your list, let's go through", then, we, in the way that we operated, had heavy, heavy hitters available to us. And the inference was, remember, when I first got involved in this, Nabil was introduced to me almost at the very outset. You know, as to take care. Not the outset, after about a year when they saw that the project was real, but still at early stages, so I didn't question him. And when I met with Nabil, he seemed always knowledgeable about what was going on in South Africa and other places, but he could have got that from Dick or Mike or anybody.

But he always, but he never volunteered anything. He never volunteered any information, he just wanted to be kept abreast of progress. I think it was like, give me a progress payment report, as if I am the vehicle through which

you're going to get paid, you see. It was that sort. Very pleasant, very decent, very nice man, very sophisticated individual and he-

L JONSON: And no obvious links to South Africa.

A MCDONALD: No, I mean, he's got a photograph of him and President Mbeki at a general gathering in the Far East, in the Middle East, and he's standing beside him, you know, and he showed me that once, but, you know, great. No knowledge of, you know-

L JONSON: How often would you update him, just out of interest?

A MCDONALD: Five times, six times in total.

L JONSON: Throughout the campaign?

A MCDONALD: Throughout the campaign. He was never a regular, I mean, he was of no value to me so I never sought him out, and I would get a phone call when I'm back in London, would I give him a call, and it was all just to find out how things were. He was, he was, he was asking me how things were going.

G MURPHY: Can I just pick up on-

L JONSON: Please.

G MURPHY: One thing - we've talked a lot over the last couple of days, which I think is a practice which we've started to call third-world practices. And we're talking in terms of the defence side of British Aerospace. Does that sort of practice go on anywhere else in British Aerospace, in commercial, for instance, where you came from?

A MCDONALD: Well I said earlier on that in my time, you know in terms of commercial aerospace, there were probably, hundreds and hundreds of transactions, we probably had to seek approval to engage consultants four or five times in total in a year.

L JONSON: And what would those, would that be with a view to third-world procedures?

A MCDONALD: Yes, but never of the scale, never, ever of the scale that you would see in defence. Never. Just the price. It just never, ever happened. And that would be a really third-world environment where, and particularly in Muslim environments where the Sharia law applied and people would expect it, and there was just no way of avoiding it. And we would seek-

G MURPHY: And ever in other jurisdictions where Sharia law is not?

A MCDONALD: I can't think of, I can't think of any other jurisdiction. I think all the areas are I think Muslim government type where it's considered part of the modus operandi of trading. And very unusual in commercial. We dealt mainly with the Western, with the advanced world who could support our equipment, who could fly it. We didn't sell to a lot of countries, third-world countries, you know? Although the 146 was originally designed for that reason, it was too sophisticated to support, so we had to focus on European and American markets where they had the capability to support it. I mean, commercial

airplanes are flying every day. Military you only use in certain occasions so you can, you know you've got a bigger obligation of support and responsibility. So very unusual in commercial aircraft would these events happen.

G MURPHY: Thanks. We are literally a couple of minutes away from the end of the tape. Lydia, is there anything you want to finally pick up on?

L JONSON: I could stay talking for ages.

G MURPHY: Yeah, well unfortunately we have no tapes left.

L JONSON: No tapes. No, thank you very much.

G MURPHY: Brenda, is there anything you want to-

B SMITHWHITE: Yeah, just one question on the Airborne Initiative in Scotland. Do you know if BAE ever donated or contributed to that?

A MCDONALD: Yes we did, we did.

B SMITHWHITE: In what way did they do that?

A MCDONALD: We contributed funds to, and I think it would be through Jet Stream aircraft who would have contributed, or commercial aircraft, but we contributed funds to, made a donation to its operating budget. Because they hadn't got the parliament, the hadn't gotten the approval to continue for another year, but they'd already made the commitment, and we stepped in to help make the commitment, and that was with the prisoners and that sort, and we used some of our kids, our apprentices, went up and got some exposure about what the programme was about, so-

L JONSON: Do you know how much money you donated?

A MCDONALD: Oh, well, it wouldn't have been a lot if it was

commercial aircraft. It would be, I mean, it would be 100,000 maximum, if it was that, if it was that. I can't, I'm sure I made, I'm sorry, I probably signed it off, so, I'm not avoiding it, but we did do something, I know we did.

What I also got, I got a lot of the apprentices to go up and went on some of the Outward Bound courses with the prisoners. I just thought it was part of their education. That was my quid pro quo. It wasn't a great quid pro quo, but I can't tell you, I would be surprised if it was, when I left I don't know whether they had renewed it or not.

But yes we did, we did. And that was after his visit to Yarrow. But they got donations from Yarrow as well. He got donations from GEC, I know that as well.

G MURPHY: We're literally out of time now. Is there anything, I mean we've only got literally 30 seconds or so of tape left. Is there anything to add or clarify at this moment?

A MCDONALD: All I would say, just for the record, I've answered every question you've given me with the best recollection I can provide, with the best honesty that's in my body, so I've tried to give you as clear a view as to what's going on to try and, recognising that you are going down certain routes, I've tried to recognise that and give you as much help as I can in terms of the validity of that route so that you don't waste time.

L JONSON: Yes, thank you.

G MURPHY: Thank you very much for your time. There is the buzzer. The time by my watch is 16.25, and we will stop the tape.

(End of Interview)