

Aide Memoire: Discussion with "A" & "B"

DA Lawson & GG Mazahan -- 8:45am to 12:30pm, Sunday, 1 Oct 2006
(Room 19 at Radisson Hotel Waterfront)

1. "A"

Background

Although he was not an Adenia project manager or involved in that Armscor project in any direct way, he was aware of the Adenia project, as with other Armscor projects, and of various agents who were engaged and paid by Armscor and of payments of commissions. The Adenia project manager was Eric Bestbier who negotiated such arrangements, including that with BSL.

His own involvement as an Accountant was as a financial controller. During his first period working in Paris (starting in 1981), he tracked the payments for Armscor's foreign procurement programme by a manual accounting system. With the old handwritten system, he had to remember how things had been done the last time, or look through thousands of pages to find the details and approach for the last payment, i.e., how the payment was done -- from which account etc. -- to make it safe. This became too difficult as the number of transactions and entries increased and was not considered sufficient.

The Payment Tracking Program

When he returned to Paris for his second stay (starting in 1988), he developed a new inhouse software database programme to track the movement of funds, including the payments from Armscor into front company accounts and the eventual payments to suppliers. He assisted setting up the necessary Armscor and front company accounts and structures for making such payments

He designed the new programme using 5 related databases, linking the payment channels to protect each of the payments from other payments should things go wrong in anyone channel. It was also important to be able to know where the money was and when and where it went to. This entire effort was his creation ("his baby").

He later expanded the computer programme as required. At first, as reflected in the MBA91 listing, there were no supplier codes (L numbers); those were added later as seen in the MBA94 listing. [NB: "MBA" was an abbreviation of the Afrikaans words "Meester betaaladvies", which mean "Master Payment Advice". The MBA forms were prenumbered (e.g. "2139" after which B would add the figures "01" at the front of such number, which thus became 012139, for an Armscor payment and would add a 'project' number with a date after, in this example, "2139". The information about



the MBA 94 listing was furnished by B who cannot at this stage remember the precise details) and in quadruplicate with each sheet having a different colour.]

The Adenia project background

It should be remembered that not all business with Aerospatiale was the Adenia project. Armscor had a successful business relationship with Aerospatiale since the 1960's for Puma purchases; for this programme all payments were made through an established channel involving Banque Paribas ("BP"). [NB: B can recall that there was a Banque Paribas in Luxembourg and although he cannot be certain, he believes that payments were through this office.]

At the time RSA military had quite a lot of French supplied military equipment, something like 6 French subs, 15 Pumas, 15 Mirages & some Alouettes & other equipment. It was not a huge amount but not negligible either. It all required continuing training and maintenance, which meant continuing payments to the French suppliers.

The effect of Sanctions (starting 1977)

While he had started to work in this area only in 1981 he was aware that, starting in 1977, things had to be changed due to the imposition of the mandatory U.N. Sanctions Resolution. From 1977 onwards, the top management were looking for new ways to make payments and he understood that the top management of KBL and of other banks (in Luxembourg, Switzerland, Singapore, UK, etc) had agreed to help Armscor. Those efforts started at the top of the organisations, i.e. not at his level, and were driven by political considerations.

When he started in Paris in 1981, things were transparent to a degree with some payments to French suppliers continuing to go through the BP accounts which had been used in the past for the Mirage purchases, etc. But pressures built up but after embargo and things became tighter on the political side. The Armscor management team in Paris had a clear indication from the French Government along the lines of *"do what you want to do, but do not embarrass us."* The suppliers remained willing to trade with Armscor despite the sanctions. They would, however, always set their price higher than normal, and Armscor entered into contracts buying the goods if it was willing to purchase them at such higher price, which was normally the case. In other words, the suppliers were willing to take the risk of dealing with the RSA despite sanctions.

Prior to 1981 BP was still used by Armscor as the major bank for paying French suppliers but due to the political pressure, some of the payments started to go through KBL. It became clear that it was smart for Armscor to have discreet backup systems for payments and not to put all its eggs in one basket. A reliable and working backup was needed in case any payment channel were to cease working for any reason. In this respect, Germain Menager knew about Armscor's other banks in Luxembourg and in Switzerland, but to his knowledge there were not direct contacts between the various bank managers for Armscor accounts in Luxembourg.

Working relationship with KBL

Armscor's banking relationship with KBL was set up initially by senior management in Armscor Pretoria, as with other banks in Luxembourg. It was in place when he

joined in 1981. John Hare, Head of Finance in Annscor Pretoria, or someone on his behalf from that office, would have gone to the bank to open the original accounts.

But once the banking relationships had been established, in Luxembourg, as elsewhere, the day-to-day operations were controlled out of Armscor's Paris office as to procurement projects which were managed out of that office. It should be noted that the Paris office would not generally be aware of projects which were managed out of the Israeli office or directly out of Pretoria. Those offices may have had their own relationships with KBL.

For those working in at the TC office in Paris, the main interaction with the Luxembourg banks, including KBL, were the weekly visits on Wednesday. To preserve confidentiality, no phone calls were made about the payments to or from the bank. Matters were handled strictly on a "need to know" basis. All communications, both ways, were handled through the diplomatic pouches we carried to/from the Wednesday meetings. These carried the fully completed instructions to the bank for the week in question. They seldom signed anything at the bank during the visit, other than the small receipt document to acknowledge receipt of the various account statements. Later on a structure was set up for urgent papers using faxes, containing an agreed code with was on the same basis as that used with Armscor Pretoria, which was a coded telex.

Armscor was a privileged and very special client of the bank KBL. The internal name "*le Group Special*" was given to Annscor by personnel working in the bank.

During the visits to Paris, he went for lunch a couple of times with Germain (Dick) Menager. They would lunch at a banker's club in Luxembourg. Prior to that, Menager's predecessor, Mergand, sometimes also took him to have lunch at that club. A good working relationship prevailed between the bank and our company in the light of its importance to the bank. Indeed, it appeared that KBL's management would go out of their way to do our bidding.

He never met any of the top directors or managers at KBL other than Mr Menager, and occasionally Mr Anton Gatou, who was a colleague of Mr Menager (he is not sure who was senior), who would see him and other Annscor colleague if Mr Menager was not available.

Annscor Management visits to Luxembourg banks

He was aware that Raymond Pretorius had visited KBL from time to time, but he did not join any of those meetings. He thought there would probably have been two meetings per year, albeit there may have been others.

During his stay in Paris, he did on one occasion visit Deutsche Bank in Luxembourg with John Hare, Armscor's Financial Director from Pretoria. This was simply a courtesy visit and was not to do business or set up the arrangement. It was not for any technical reason. There was only one visit.

He believes the business which Armscor did with KBL, and the other banks in Luxembourg, for the purpose of hiding the payment trails for the foreign military procurement projects, could not have been done without the full knowledge and

blessing of the very top managements of both Armscor and the banks involved. This was due to the volumes of money being channeled and the sensitivity of the activities associated with the transfers.

The opening of the BSL Account at KBL

His first meeting with Jorge Pinhol occurred after he received instructions in February 1990 from he thinks, Roy Spring, who was then the head of the Technical Committee (TC) in Paris, to go to Luxembourg to meet with Jorge Pinhol and open an account for his company, BSL, at KBL. He thus travelled to Luxembourg (he cannot remember today if it was directly from Paris or first through another city). He recalls arriving the evening when he and Jorge Pinhol stayed at the same hotel in Luxembourg and they had dinner together. B thinks it was the Royale. It had been arranged that he would introduce Jorge Pinhol to KBL the next day to perfect the account opening formalities.

At the time he had some awareness of the commission arrangements of Jorge Pinhol and his companies, as remuneration for doing what Jorge Pinhol had done on the Adenia project, but he only learned later of the details of the Portuguese delivery channel. He knew that Mr Pinhol was an agent and that the purpose of the visit to KBL was to open a bank account for Mr Pinhol's business. That account was opened, in accordance with the consistent practice, to be totally controlled by Armscor personnel in the Paris office.

The next day he accompanied Mr Pinhol to the bank and asked for Germain Menager. They were taken, as was normal, to a small room in the bank where Jorge Pinhol was personally introduced to Mr Menager. At that time Mr Pinhol presented his passport which was taken for copying by Mr Menager. He recalls informing Mr Menager which Armscor persons would be named on the POA with the required signature authority on the BSL account. In accordance with practice, Armscor always required two signatures of its own personnel, in this case using an "A" and "B" signature system.

He recalls that the account was opened as requested and was subsequently entered into the computer programmes as a front company account. It was understood that Armscor would transfer the money due to BSL from this account to such account as Jorge Pinhol would identify. At the end of the meeting, they left the bank and nothing special happened.

Mr Pinhol was the only Armscor agent who was accompanied personally by him to KBL or any other bank to open an account physically. On the other hand, these kinds of meetings with an agent, usually however to effect a payment, were not that unusual. On one occasion, he flew to Luxembourg to withdraw US\$ 500,000 in cash from KBL and then flew to Geneva with cash in a black case where he met another Armscor agent and paid the cash to him. The agent in question simply thanked him, took the case and left without any counting of it.

2. "B's" comments

How Projects were Managed in the Paris TC office

During his period working at Armscor's Paris TC office in the RSA embassy, weekly meetings were held covering all Armscor procurement projects which were currently being managed by the TC. The financial team generally did not attend nor did they participate in the negotiating and setting up of the projects.

The procurement projects were set up roughly as follows: If there was a need for a particular type of product in Annscor, the TC would be informed and would identify an appropriate supplier and negotiate a supply contract to meet the need. After sanctions were imposed, it was also necessary to establish a suitable channel for the product deliveries. As part of this commercial work, those responsible for the project at the TC *would* negotiate the price and other terms of the transaction, including the payment terms. Those in the financial section would not be involved at that stage. The project manager would then go back to Pretoria to see if the terms negotiated were acceptable to Armscor.

It was only after a deal was in place (i.e. the supply contract and any related contracts, such as those involved in the delivery -- and such as agent or commission agreements), that the TC's financial section would get involved and establish and implement a suitable channel for payments.

On the financial/payment side, such projects normally involved a pre-payment to the supplier (often 25% of the total contract value) and then payments as deliveries were made as well as ancilliary payments for transportation and other parts of the transactions, including commission agents.

He had the job to administer the financial terms of each supply contract and related contract and would for that purpose receive a copy of each such contract once it was signed.

This would include the contract between the main supplier and Annscor for the Adenia project, which he recalls was some 10 pages long. Such contracts would normally specify the total value of the contract as well as the intended delivery schedule and the payments schedule, which were relevant to his work. After the contract was received and payments would start to be due (i.e. ordered to be made by Pretoria, which had the overall management for each contract), the TC financial group in Paris would set up how the payments would be made (assuming always that the payments went through the bank accounts managed by the TC in Paris).

For those procurement projects managed by the TC in Paris, the TC financial group in Paris would have tracked and made entries for the payments in the computer programme. It was possible that there would be some exceptions to this, for example payments made in respect of a project directly from Pretoria or through another payment channel. However, in principle, as the Adenia project was managed out of the Paris office, it should have all the Adenia payments in the computer programme (for the years represented). The missing years 92-93 may include substantial payments. He knew that all required payments were made to the supplier since the airframes were delivered to and received by Armscor.

Comments on the Adenia project total value: US\$3 billion?

He recalls the US\$3 billion was a figure mentioned by Eric Bestbier, or someone else



in the project management in Paris, when speaking of the entire project. Knowing this was effectively a government-to-government procurement, he noted that the stated total contract value was generally higher, even substantially higher, than it would have been stated if it were a private sales contract. It is customary that when speaking of such procurement programs with a governmental entity, the total global figure would include all project add-ons, all components and all planned or anticipated training and maintenance costs throughout the expected life of the project. In his experience, these governmental procurement packages could be huge.

For example, if each unit of goods being procured had a contract price of US\$5 million for the buyer, it could well be that a US\$12 million contract value per unit would be stated for a governmental procurement. On the other hand, only the hardware itself (plus spares) would have to be sent through the designated delivery channel.

He confirmed that to his knowledge, activity on the Adenia project continued until recently, perhaps up to 2002. For the Adenia project, involving 50 new Puma helicopters in kits for Armscor and 20 new helicopters for OGMA, the total value would be about \$10-15 million per unit or a total value of about US\$1 billion. It was also appreciated that upgrades of existing Armscor and OGMA fleets plus ongoing maintenance and spares, with the production lines and staff in RSA for assembly, would increase this figure. While he cannot speak to it, the difference between the sum of these amounts and the US\$3 billion could have resulted from the amounts needed to "largess".

Re Suppliers in the Adenia project

He recalls using the standard 10-page contract to cover not just the main supplier in the Adenia project but also a number of other suppliers. Those contracts had a value noted on them but he cannot at this point in time remember the details, including the total value or the other financial terms such as advance payments, or the inclusion of any terms relating to a commissions. He would, however, be able to recognise the documents if they were to be shown to him.

He notes that while he received main contract when it was signed by the supplier and Armscor in or about 1987, the deliveries of airframes were, due to the usual production lead times for the supplier, due to start only 3 years later, so he had to wait for instructions from Pretoria on making the initial advance payment and subsequent payments on deliveries. He recalls making a significant advance payment to Aerospatiale.

He left Armscor in April 1990, as the deliveries under this project were just starting.

He also remembers having copies of contracts with OGMA.

Other matters relating to TC Operations (possible move of TC?)

He also recalled, from an operating point of view, in or about 1988-89, the emergence of a problem where the French authorities felt unduly embarrassed by TC activities, in particular those related to what became known as the "blow pipe scandal." This gave rise to an examination of whether the TC office in Paris should be relocated to Lisbon,



Portugal. He understands that possible arrangements for this purpose in Lisbon were looked into by Jorge Pinhol and discussed with other Armscor management persons. In the end it did not prove necessary to implement such a relocation.

Re Meeting Jorge Pinhol

He personally met Mr Pinhol for the first time in 1985 or 1986 in the Paris Embassy boardroom. He remember the occasion well as Jorge Pinhol was a short guy.

The meeting was by chance Tony de Klerk, the then- Head of the TC office in Paris, had introduced B and had asked about the payment to Jorge Pinhol relating to the Orion project. The question related to payment to Jorge Pinhol's business, in particular how much they should get. He does not today recall the details but does recall procuring that a payment was made to a "Beverly Securities", which he thought was an unusual name for a company as it was a woman's name. He does not today remember the amount or to where the payment was made but recalls that it was only one payment for a commission. He does not remember who ordered the payment but the authorisation would have come from Pretoria.

About Armscor's payments to U.S. Accounts

He recalls payments being made to account at U.S. bank; but these were all supplier accounts. From the Paris TC office, no Armscor front company bank accounts were held in the States, certainly none were managed from Paris. He recalls that there were some personal bank accounts in the U.S. for some individuals/contact persons but he had nothing to do with any of them.

He confirms that his office arranged for payments to suppliers in the U.S. accounts, as can be seen from the programme.

The U.S. correspondent bank of KBL which would have been used in clearing any US\$ transfers to other accounts, were either Citibank, Chase Manhattan Bank or Bank of New York.

Relationship with KBL (A more secure/secret alternative for payments

When the Armscor top management were considering how best to assure the full and completely confidentiality of its procurement project payments and all associated payments, Germain Menager reassured him, as he understood it, that this had previously been done amongst the more senior management of both organisations and that Luxembourg had "better banking secrecy" than did Switzerland or other countries.

This was stressed as a reason to make the transfers through KBL. In particular, he was told that in Luxembourg there was no required disclosure of the beneficial owner of the account which was required elsewhere. While this was not a requirement, in the business which he conducted on Armscor's behalf with KBL that bank knew that all the front companies, as established by the bank for Armscor, were beneficially owned entirely by Armscor.

He was, at the time, personally aware that this was true from a personal experience. During 1999 he took a personal friend to KBL and introduced him to Mr Menager for

the purpose of opening a new bank account. They were invited into the office, a copy of the passport was taken and the account opening forms were completed promptly by hand, which were then signed on the spot. This was consistent with the way in which Armscor had been treated at KBL.

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On this occasion, some years after he had left Armscor, he asked Mr Menager what was happening with "le Group Special" and the latter replied, "Oh, not much going on". Mr Menager also noted, without being asked about it, but perhaps by way of some type of reassurance that the banking records had for the most part been destroyed, as 5 years had passed.

Re Armscor Top Management Visits to KBL

He was aware during his period of employment at the TC office in Paris that John Hare (Armscor's overall Financial Director) visited KBL in Luxembourg with Raymond Pretorius (and perhaps others) regarding a problem relating to a very large letter of credit from a buyer in the Middle East who owed Armscor money.

At such meetings neither he nor those in his office were involved but Germain Menager would have been present. He is aware from his having asked Mr Menager, that the latter knew both John Hare and Raymond Pretorius.

As to Armscor Front Companies

After the names of the directors were given to KBL (noting that most of the times Armscor personnel were to be the directors, the rest of the time "tame" directors were supplied by offshore brokers to KB Trust, the sister company to KBL).

There were standard agreed paperwork formalities including, in particular, designated signatories and powers of attorney. As far as the necessary passport copies were concerned, KBL had already taken copies of the relevant passports and had no problem in putting these directors onto the account documents without more than the Paris' office request that they do so. Some of these directors had formerly been in the Paris office, but were subsequently based back in Pretoria. The directors were not the persons who would normally sign on the account, which was left to those working in the Paris office. Double signatures were always required for instructions to the banks which were carried each week to Luxembourg in the diplomatic bag;

It should be noted that Armscor Finance persons in Pretoria would also go to visit the banks in Luxembourg and elsewhere on their own and without the involvement (or sometimes even the knowledge) of the finance people working in Paris.



Re the Decision to withhold BSL's commission

He became aware of it only in 1997 when Jorge Pinhol was meeting Derek Furter, who by that time was responsible for investigating Armscor activities and formerly had been a director of the RSA government office for Serious Economic Offences. He had been called in to assist with the evidence in relation to Jorge Pinhol's claims.

When BSL's account was opened in February 1990 (first deliveries were made in late 1989, but very few payments other than, he recalls, a large advance payment, which he believes would have been 25% of the total contract value), no commission was due on any advance payment but rather only as and when deliveries were made.

Descriptions of Armscor personnel and Pinhol

1. Armscor's Top Management at the time (1990)

- Chairman of the Board: Commandant Marais
- CEO: Jan van Vuuren

2. Armscor senior manager of divisions:

- Foreign Procurement: Raymond Pretorius

He was a big bombastic person, who would say "I am the boss" (meaning "I am God"). He is today close to 70, he left Armscor in 1998, the same time as DJL. Among the visits he made to Luxembourg to see KBL was one in about 1988 when he was accompanied by John Hare & Jan van Vuuren (the CEO of Armscor & RP's boss)

- Finance: John Hare;

He left Armscor for South African Airways. A quiet and pleasant man (short-fat guy). A and B met him on social occasions. He was replaced in 1988 by Helmie Snyman who later committed suicide

3. Adenia Project Manager - Eric Bestbier.

In 1989 he was about 45 years old. He had a technical training and "knew everything" (in other words, he would let you know that he was very important!). He was however a nice guy. It is not clear to what extent he had authority to bind Armscor to contract terms on his own. He joined Sandoc Australia in South Africa but B has no idea where he now is.

4. [GG Mazahan additional comment: Tony de Klerk said to him that he (Tony) could not believe the extent to which Mr Pinhol managed to be in and out of the TC office in the Embassy in Paris. Mr Pinhol appeared almost to be part of the Armscor team, at least during the Orion project. "E" commented that Jorge Pinhol had the ability to gain access within Armscor to places where other agents did not dare to go.]

PS: Additional Comments on the Payment Diagram

A discussion took place on how, in practice, payments took place at the instructions of Armscor's Financial Division in Pretoria from one of Armscor's banks in RSA (normally Volkskas) to the "jump accounts" opened by Armscor in one of the several banks used for making payments to suppliers of the foreign procurement

programme (normally to a "jump account" for the payment channel selected for that project or transaction, A diagram was prepared showing the payment lines from the bank in the RSA to the various banks whose accounts were managed by the Financial Group at the TC in Paris, and through such banks (i.e. from the jump account to the designated paying account, usually in the same bank) to the identified accounts of the each of the suppliers, normally in a different country.

It is clear that not all payments were made through accounts which were managed by the TC in Paris, hence not all payments would be known to or tracked by that office or included in the computer programme. Those payments which did transverse the bank accounts which were managed by the TC in Paris would show up on the computer programme.

It was not possible, however, for the TC in Paris to know the exact route taken by funds which arrived in the jump account in each of the banks they managed. The arrangements for funds, having been requested by the TC in Paris to arrive in the "jump account", arrived through a "dark zone" of which, including A and B, nobody in Paris had any detailed knowledge. It is understood that for sensitive procurements, the payments might well arrive at the jump account from a bank outside the RSA, all arranged by the Finance Division in Pretoria. The Adenia project, for transporting people and goods, was not considered an overly "sensitive project." There were, however, many Armscor procurement projects for military equipment and materials which were highly sensitive.

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A handwritten signature in black ink, appearing to be 'Dewitt', with a diagonal line drawn through it.