

Stati Parties v. Republic of Kazakhstan

*Review of transactions
by the Stati Parties for
characteristics of money
laundering risks*

29 July 2020

Private and
Confidential

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Use of this report

This report has been prepared in accordance with the Letter of Engagement between PricewaterhouseCoopers LLP (“PwC”) and Herbert Smith Freehills LLP (“HSF”) dated 2 August 2019 and the Variation Letters dated 9 January 2020, 30 January 2020, 27 February 2020 and 25 June 2020. This report has been prepared only for HSF acting on behalf of the Ministry of Justice of the Republic of Kazakhstan and solely for the purpose and on the terms agreed in the Letter of Engagement. Neither Ian Clemmence nor PwC accepts any liability (including for negligence) to anyone else in connection with this report, and it may not be provided to anyone else except as stated in the engagement letter.

4. Expert's Declaration

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Use of this report

This report has been prepared in accordance with the Letter of Engagement between PricewaterhouseCoopers LLP (“**PwC**”) and Herbert Smith Freehills LLP (“**HSF**”) dated 2 August 2019 and the Variation Letters dated 9 January 2020, 30 January 2020, 27 February 2020 and 25 June 2020. This report has been prepared only for HSF acting on behalf of the Ministry of Justice of the Republic of Kazakhstan and solely for the purpose and on the terms agreed in the Letter of Engagement. Neither Ian Clemmence nor PwC accepts any liability (including for negligence) to anyone else in connection with this report, and it may not be provided to anyone else except as stated in the engagement letter.

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“Le Journal Officiel de la République Démocratique du Congo” published by the Office of the President of the Democratic Republic of the Congo, no. 24, dated 15 December 2012	PwC-061
List of Senators elected on 19 January 2007, published by the Independent National Electoral Commission	PwC-062
Publication on the news website of The Standard (https://www.standardmedia.co.ke), “Uncertainty over Lamu port as S. Sudan begins railway project”, dated 12 October 2010	PwC-063
Publication on the website of the New Sudan Foundation (www.newsudanfoundation.com), “About us” section	PwC-064

Glossary of terms and abbreviations

Abbreviation	Term
2006 Indenture	An Indenture that was entered into between Tristan, KPM and TNG with Wells Fargo Bank, N.A. as Trustee, on 20 December 2006
Arkham	Arkham S.A., third party related to Vitol SA
Ascom	Ascom S.A., 100% owner of KPM and registered in the Republic of Moldova, ¹ is the claimant in the arbitration. This entity is also referred to as Ascom Group S.A. I am instructed that that until between 2004 and 2007, it was previously known as Industrial Financial Group Ascom SA, JSC Industrial Financial Group Ascom or IFG Ascom SA, and it was subsequently renamed to Ascom Group SA. This is not the same company as Ascom Group Limited, an entity registered in the British Virgin Islands.
Ascom Group Limited	According to Rietumu Bank statements the company is located in the BVI, entity controlled by the Stati Parties
Award or Awarded Amount	Award issued by the Tribunal of around USD 500 million against the Republic of Kazakhstan
Azalia or Azalija	Azalia LLC (alternative spelling “Azalija OOO”), entity controlled by the Stati Parties
Bert Management	Bert Management Consulting Group, related party, according to Rietumu Bank statements the company is located in New Zealand, entity controlled by the Stati Parties
ECT Arbitration	Arbitral proceedings initiated by the Stati Parties against the Republic of Kazakhstan under the Energy Charter Treaty
FATF	Financial Action Task Force

¹ Tristan’s Annual Report, Combined and Standalone audited Financial Statements of Tristan, KPM and TNG for the year ended 31 December 2009, page F-90, Note 1. Exhibit PwC-007.
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Gast Geophysical Ltd	Gast Geophysical Ltd, related party, according to Rietumu Bank statements the company is located in British Virgin, entity controlled by the Stati Parties
General Affinity	General Affinity Ltd, related party vehicle used for sales of crude oil and gas condensate
Getter	Getter Investment Limited, related party, according to Rietumu Bank statements the company is located in British Virgin Islands at the same address as Melvin Production Inc, entity controlled by the Stati Parties
Hayden	Hayden Intervest Ltd, related party, according to Rietumu Bank statements the company is located in British Virgin Islands, entity controlled by the Stati Parties
HSF	Herbert Smith Freehills LLP
Komet	Komet Group SA, related party, according to Rietumu Bank statements the company is located in British Virgin Islands at the same address as Pellat International Ltd, entity controlled by the Stati Parties
KPM	Kazpolmunay LLP
KPMG	KPMG Audit LLC
Lenwell	Lenwell Solutions Inc, related party, according to Rietumu Bank statements the company is located in British Virgin Islands at the same address as Berdaron Estate Ltd, entity controlled by the Stati Parties
LPG Plant	Liquefied petroleum gas plant
Montvale	Montvale Invest Ltd
Melvin	Melvin Production Inc, related party, according to Rietumu Bank statements the company is located in British Virgin Islands at the same address as Getter Investment Limited, entity controlled by the Stati Parties
Mr A Stati	Anatolie Stati
Mr Adelard	Matombe Masanga Adelard
Mr Dimitrov	Dimitar Dimitrov
Mr G Stati	Gabriel Stati

Mr Hawrami	Sarbaz H Hawrami
Mr Leanca	Iurie Leanca
Mr Lungudi	Olowa Lungudi
Noteholders	Holders of Tristan Notes (financial institutions)
Pellat	Pellat International Ltd, related party, according to Rietumu Bank statements the company is located in British Virgin Islands at the same address as Komet Group SA, entity controlled by the Stati Parties
PEP	Politically Exposed Persons
Perkwood	Perkwood Investments Ltd, entity controlled by the Stati Parties
Prima Facie Fraud Judgement	The English High Court made a conclusion on 6 June 2017 that <i>“there is a sufficient prima facie case that the Award was obtained by fraud”</i> ²
PUK	Patriotic Union of Kurdistan
PwC	PricewaterhouseCoopers LLP
Rietumu Bank	AS Rietumu Bank, Riga, Latvia
Romneftegaz	Romneftegaz LLC
Stadoil	Stadoil Ltd, related party vehicle used for sales of crude oil and gas condensate
Stati Parties	Anatolie Stati, Gabriel Stati, Ascom Group S.A. and Terra Raf Trans Trading Ltd., together with other companies known to be affiliated to Anatolie and Gabriel Stati
Terra Raf	Terra Raf Trans Trading Ltd, 100% owner of TNG
TGE	Tractebel Gas Engineering GmbH
TGE Equipment	LPG equipment acquired from a German third party manufacturer and supplier, TGE
TNG	Tolkynneftegaz LLP
Tribunal	Arbitral tribunal in the ECT Arbitration

² Judgement of Mr Justice Knowles CBE in the High Court of Justice dated 6 June 2017, Case No CL-2014-000070 between the Stati Parties and Kazakhstan, paragraph 92. Exhibit PwC-012
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Tristan Notes	Under 2006 Indenture ³ and its amendments dated 21 May 2007 ⁴ and 6 June 2007, ⁵ Tristan issued notes in the aggregate principal amount of USD 300 million on or about 20 December 2006 ⁶ and notes in the aggregate principal amount of USD 120 million on 8 June 2007 ⁷
Tristan	Tristan Oil Ltd (also referred to as Tristan Oil Limited), which is wholly-owned by Mr A Stati
UK	United Kingdom
Vitol	Vitol S.A., third party, purchased KPM's and TNG's crude oil and gas condensate. Vitol nominees- Arkham S.A. and Vitol FSU.
Wells Fargo	Wells Fargo Bank, N.A.

³ Indenture entered between Tristan, KPM and TNG with Wells Fargo Bank, N.A. as Trustee dated 20 December 2006 (also referred to as “2006 Indenture”). Exhibit PwC-009.

⁴ First Amendment to Indenture among Tristan, KPM, TNG and Wells Fargo Bank, N.A. Exhibit PwC-002.

⁵ Second Amendment to Indenture among Tristan, KPM, TNG and Wells Fargo Bank, N.A. Exhibit PwC-003.

⁶ Combined and Standalone audited Financial Statements of Tristan, KPM and TNG for the year ended 31 December 2006, page F-45, Note 8. Exhibit PwC-004.

⁷ Tristan’s Annual Report, Combined and Standalone audited Financial Statements of Tristan, KPM and TNG for the year ended 31 December 2007, page F-64, Note 15. Exhibit PwC-005.

1. Introduction

Introduction

- 1.1 My full name is Ian Clemmence. I am a Partner in the London office of the United Kingdom firm of PricewaterhouseCoopers LLP (“**PwC**”). My qualifications and experience are set out in Appendix 1.1.
- 1.2 This report has been prepared in accordance with the terms of engagement dated 2 August 2019 (and the related Variation Letters dated 9 January 2020, 30 January 2020, 27 February 2020 and 25 June 2020) between PwC and Herbert Smith Freehills LLP (“**HSF**”). As explained further below, HSF represents the Republic of Kazakhstan (represented by the Ministry of Justice of the Republic of Kazakhstan) in a series of legal proceedings related to a dispute between Anatolie⁸ Stati (“**Mr A Stati**”), Gabriel Stati (“**Mr G Stati**”), Ascom Group S.A. and Terra Raf Trans Trading Ltd. (referred to as the “**Stati Parties**”, together with other companies known to be affiliated to Anatolie and Gabriel Stati); and the Republic of Kazakhstan, under the Energy Charter Treaty (the “**ECT Arbitration**”). The dispute relates to the Stati Parties' alleged investment in Kazakhstan through Kazakhstan-based companies Tolkyneftegaz LLP (“**TNG**”) and Kazpolmunay LLP (“**KPM**”). Amongst other things, TNG was involved in the construction of a liquefied petroleum gas plant (“**LPG Plant**”) in Kazakhstan.
- 1.3 Under the terms of PwC’s instructions from HSF, I have been instructed to review certain financial information related to the Stati Parties that has been provided to me by HSF and to conclude, based on my review, as to whether there are transactions and / or other details in the information provided that display characteristics which may be indicative of money laundering. Further details of the information provided to me, and my instructions, are set out below.
- 1.4 This report has been prepared only for HSF acting on behalf of the Ministry of Justice of the Republic of Kazakhstan and solely for the purpose and on the terms of our engagement. Neither I nor PwC accepts any liability (including for negligence) to anyone else in connection with this report, and it may not be provided to anyone else except as stated in the engagement letter. I understand that HSF will share this report with the parties to the current litigation in respect of this matter. I consent to this report being provided to those parties for the purpose of conducting the current litigation proceedings. However, save for HSF, I accept or assume no liability to the any other party as a consequence of them being provided with this report.

⁸ Also spelled as “Anatol” and “Anatoli”.

- 1.5 I have been assisted in my work by members of my firm's staff and PwC Kazakhstan, whose work I have supervised personally. The opinions expressed in this report are my own.⁹
- 1.6 I am instructed to act as an accounting expert witness and not as a witness of fact.

Background

- 1.7 I understand that the background to this matter is set out in a number of documents which have already been submitted in these proceedings. I have therefore not repeated that background in detail in this report. However, certain areas of background which are relevant to my report are set out below.
- 1.8 I am instructed that the Stati Parties raised finance for their alleged investment in Kazakhstan, from investors, through a company called Tristan Oil Limited ("**Tristan**"), which is wholly-owned by Mr A Stati. Included in the finances raised by the Stati Parties was an Indenture that was entered into between Tristan, KPM and TNG with Wells Fargo Bank, N.A. ("**Wells Fargo**") as Trustee, on 20 December 2006 (the "**2006 Indenture**")¹⁰. I understand that the purpose of the 2006 Indenture was to finance the operations of KPM and TNG in Kazakhstan, including the LPG Plant.¹¹
- 1.9 I understand that pursuant to the 2006 Indenture and its amendments dated 21 May 2007¹² and 6 June 2007¹³, Tristan issued notes in the aggregate principal amount of USD 300 million on or about 20 December 2006¹⁴ and notes in the aggregate principal amount of USD 120 million on 8 June 2007¹⁵ (together, the "**Tristan Notes**"). I understand that these notes were purchased by a range of financial institutions (the "**Noteholders**"). I set out further details on the Tristan Notes in Section 3 of this report.
- 1.10 As set out above, the current legal proceedings between the Stati Parties and the Republic of Kazakhstan relate to the Stati Parties alleged investments, including the funds raised from the Tristan Notes, through KPM and TNG in Kazakhstan.

⁹ A number of the documents provided to me are in Russian. Where this is the case, I have relied on translations of those documents provided to me by members of my team who are able to speak and read Russian.

¹⁰ 2006 Indenture, Exhibit PwC-009.

¹¹ See Section 3 for further details.

¹² First Amendment to Indenture among TO, KPM, TNG and Wells Fargo Bank, N.A. Exhibit PwC-002.

¹³ Second Amendment to Indenture among TO, KPM, TNG and Wells Fargo Bank, N.A. Exhibit PwC-003.

¹⁴ Combined and Standalone audited Financial Statements of Tristan, KPM and TNG for the year ended 31 December 2006, page F-45, Note 8. Exhibit PwC-004.

¹⁵ Tristan's Annual Report, Combined and Standalone audited Financial Statements of Tristan, KPM and TNG for the year ended 31 December 2007, page F-64, Note 15. Exhibit PwC-005.

- 1.11 I understand that on 19 December 2013, the Stati Parties obtained an arbitral award of around USD 500 million against the Republic of Kazakhstan (the “**Award**” and the “**Awarded Amount**”)¹⁶ issued by an arbitral tribunal (the “**Tribunal**”) in an arbitration under the Energy Charter Treaty (the “**ECT Arbitration**”). I understand that the Awarded Amount was based, in respect of the value of the LPG Plant, on an indicative bid which had been submitted for that plant.¹⁷ This indicative bid was based on a combination of TNG’s historical costs allegedly spent on the LPG Plant¹⁸ and the available financial statements of TNG and KPM,¹⁹ as shown by the TNG interim financial statements for the six months to 30 June 2008. After the date of the Award, I understand that the Republic of Kazakhstan initiated annulment proceedings in the Svea Court of Appeals in Stockholm, at the seat of the ECT Arbitration. During the course of the annulment proceedings, the Republic of Kazakhstan alleges that a new set of facts was discovered that showed that the Award and the Awarded Amount had been fraudulently obtained.
- 1.12 In parallel to the annulment proceedings in Sweden, I understand that the Stati Parties commenced proceedings for enforcement of the Award in the United Kingdom, where following an exchange of written and oral submissions in a two day hearing, on 6 June 2017 the English High Court decided that “*there is a sufficient prima facie case that the Award was obtained by fraud*” (the “**Prima Facie Fraud Judgement**”).²⁰ The Prima Facie Fraud Judgement is attached as PwC-012.

Information provided to me

- 1.13 For the purpose of preparing this report, my instructing solicitors HSF have provided me with the following information:

¹⁶ Award issued by the Tribunal in the ECT Arbitration dated 19 December 2013. Exhibit PwC-001.

¹⁷ Award issued by the Tribunal in the ECT Arbitration dated 19 December 2013, Paragraph 1747, page 382. Exhibit PwC-001.

¹⁸ KazMunaiGas Exploration Production JSC Indicative Bid, dated 25 September 2008, points d and f. Exhibit PwC-010.

¹⁹ The Information Memorandum on Project Zenith, issued by Renaissance Capital, in August 2008. The following financial information is referred to on page 4, Exhibit PwC-011: “*The financial information presented in this Information Memorandum is derived from the unaudited interim combined balance sheets and statements of income, cash flows and changes in shareholders’ equity of KPM, TNG and Tristan Oil, as of and for the six months ended 30 June 2007 and 2008, and the audited combined balance sheets and statements of income, cash flows and changes in shareholders’ equity of KPM, TNG and, with effect from its incorporation on 24 October 2006 and Tristan Oil, as of 31 December 2005, 2006 and 2007. In addition, financial information presented in this Information Memorandum is derived from the individual interim unaudited balance sheets and statements of income, cash flows and changes in shareholders’ equity of KPM, TNG and, Tristan Oil, as of and for the six months ended 30 June 2007 and 2008, and the audited individual balance sheets and statements of income, cash flows and changes in shareholders’ equity of KPM, TNG and, with effect from its incorporation on 24 October 2006, Tristan Oil for the years ended 31 December 2005, 2006 and 2007 KPM and TNG are in the process of restating their financials for the years ended 31 December 2005 and 2006 and Tristan Oil, with effect from its incorporation on 24 October 2006, for the year ended 31 December 2006.*” The source of the information relied upon in the indicative bid is confirmed in the Witness Statement of Nuran Bakhytovich Kairakbayev, a copy of which is included in Exhibit PwC-014.

²⁰ Judgement of Mr Justice Knowles CBE in the High Court of Justice dated 6 June 2017, Case No CL-2014-000070 between the Stati Parties and Kazakhstan. Exhibit PwC-012.

- a. Financial Statements for the years ended 31 December 2006, 2007, 2008 and 2009 (and various other interim financial statements over this period) for TNG, KPM and certain other relevant entities.
- b. The underlying accounting records of KPM and TNG for the period from 1 January 2007 to 31 December 2009.
- c. Various bank statements provided to us in relation to accounts held with AS Rietumu Bank, Riga, Latvia (“**Rietumu Bank**”) for a number of entities relevant to the scope of my work. I understand that Mr A Stati is either named as the ultimate beneficial owner of each of these bank accounts and / or there is a general Power of Attorney in his name.
- d. Copies of certain correspondence between the Stati Parties and KPMG Audit LLC (“**KPMG**”), who were the auditors of KPM, TNG and Tristan during the time periods relevant to this report.

- 1.14 I attach at Appendix 1.2 a full list of the documents that I have relied upon in forming my expert opinion. Where I have relied upon specific documents in my work, I have also included references to those documents in this report and the corresponding documents are included as exhibits to this report.
- 1.15 I note that where analysis in this report is rounded, minor casting errors may be apparent in tables.
- 1.16 This report is based upon the documentation and information that has been made available to me up to the date of this report. Any documentation or information brought to my attention subsequent to the date of this report may require me to adjust and/or qualify this report accordingly.

Scope of work

- 1.17 As set out above, I have been instructed to review the information provided to me by HSF and to consider whether there are transactions by the Stati Parties and / or other details within that information which display characteristics which may indicate that money laundering has occurred. Specifically, I have been instructed to:
- a. Set out details of the typical framework used to assess whether there is a risk that money laundering may have occurred. I do this in Section 2 of this report.
 - b. To provide, where relevant, examples that I have identified from the information provided to me which are relevant to the framework referenced above. I do this in Section 3 of this report.

Structure of this report

- 1.18 The remainder of my report is set out under the following headings:

	Section
Overview of the framework used to consider the risk of money laundering	2

Consideration of identified example transactions and activities in the context of the money laundering risk framework	3
Expert's Declaration	4

2. *Overview of common frameworks used to consider the risk of money laundering*

Introduction

- 2.1 In this section, I set out an overview of some of the common frameworks that are used to consider whether there is a risk that money laundering may have occurred. There are numerous different frameworks used to assess money laundering risks, many of which focus on setting out a series of ‘red flags’ which, if identified in financial information / transactions may indicate an increased risk that money laundering has occurred.
- 2.2 I set out below details of the ‘red flags’ that I have considered in preparing this report. The underlying interpretation of specific money laundering legislation is a legal matter outside of my expertise. However, as detailed further below, the ‘red flags’ that I discuss in this report are general indicators of money laundering risks which, whilst prepared by the United Kingdom (“UK”) Government, are applicable to the consideration of money laundering risks more generally (i.e. not just specific to the UK).

Indicators of potential money laundering

- 2.3 Money laundering can be defined as “...*the process by which profits of illegal activities are disguised and made to appear legitimate*”.²¹ There are numerous different approaches used to assess money laundering risks, many of which focus on setting out a series of ‘red flags’ which, if identified in financial information / transactions, may indicate an increased risk that money laundering has occurred.

²¹ UK Government, ‘Flag It Up’, <https://flagitup.campaign.gov.uk/>

- 2.4 The UK Government has provided a range of guidance on such potential ‘red flags’ through an initiative that it has run in recent years alongside accounting, legal and property sectors to “*promote best practice in anti-money laundering compliance and reporting suspicious activity*”.²² The underlying interpretation of specific money laundering legislation, which can vary from jurisdiction to jurisdiction, is a legal matter outside of the scope of this report. However, the ‘red flags’ that I discuss in this report are general indicators of money laundering risks which, whilst prepared by the UK Government, are applicable to the consideration of money laundering risks more generally (i.e. not just specific to the UK²³).
- 2.5 The guidance provided by the UK Government lists the following potential money laundering ‘red flags’:²⁴
- a. **Transactions:** “*Are transactions unusual because of their size, frequency or the manner of their execution, in relation to the client’s known business type?*”
 - b. **Structures:** “*Do activities involve complex or illogical business structures that make it unclear who is conducting a transaction or purchase?*”
 - c. **Assets:** “*Does it appear that a client’s assets are inconsistent with their known legitimate income?*”
 - d. **Resources:** “*Are a client’s funds made up of a disproportionate amount of private funding, bearer’s cheques or cash, in relation to their socio economic profile?*”
 - e. **Identity:** “*Has a client taken steps to hide their identity, or is the beneficial owner difficult to identify?*”
 - f. **Behaviour:** “*Is the client unusually anxious to complete a transaction or are they unable to justify why they need completion to be undertaken quickly?*”
 - g. **Political Status:** “*Is the client engaged in unusual private business given that they hold a prominent public title or function? Or do they have ties to an individual of this nature?*”
 - h. **Documents:** “*Are information or documents being withheld by the client or their representative, or do they appear to be falsified?*”
 - i. **Geographical Area:** “*Is the collateral provided, such as property, located in a high-risk country, or are the client or parties to the transaction native to or resident in a high-risk country?*”
 - j. **Choice of Professional:** “*Have you, or other professionals involved been instructed at a distance, asked to act outside of your usual speciality, or offered an unusually high fee?*”

²² UK Government, ‘Flag It Up’, <https://flagitup.campaign.gov.uk/>.

²³ I note that the UK Government also is a member of the Financial Action Task Force (“**FATF**”), <http://www.fatf-gafi.org/countries/#United%20Kingdom>.

²⁴ UK Government, ‘Flag It Up’, <https://flagitup.campaign.gov.uk/>.

- 2.6 For consistency, I have used the descriptions of the 'red flags' above as sub-headings for the remaining sections of this report, providing under each sub-heading, where relevant, examples of transactions and / or activities that I have identified during my work which may raise concerns, since they would appear to fall into these typical 'red flag' categories.

3. *Consideration of identified transactions and activities by the Stati Parties in the context of the money laundering risk framework*

Introduction

- 3.1 In this section, I set out examples of transactions and activities of the Stati Parties that I have identified during the course of my review of the financial information provided to me which fulfil some of the ‘red flag’ characteristics of money laundering that I discussed in the previous section of this report. For consistency, I have structured my examples under each relevant ‘red flag’ using the following sub-sections:
- a. **Transactions:** *“Are transactions unusual because of their size, frequency or the manner of their execution, in relation to the client’s known business type?”*
 - b. **Structures:** *“Do activities involve complex or illogical business structures that make it unclear who is conducting a transaction or purchase?”*
 - c. **Identity:** *“Has a client taken steps to hide their identity, or is the beneficial owner difficult to identify?”*
 - d. **Behaviour:** *“Is the client unusually anxious to complete a transaction or are they unable to justify why they need completion to be undertaken quickly?”*
 - e. **Geographical Area:** *“Is the collateral provided, such as property, located in a high-risk country, or are the client or parties to the transaction native to or resident in a high-risk country?”*
 - f. **Political Status:** *“Is the client engaged in unusual private business given that they hold a prominent public title or function? Or do they have ties to an individual of this nature?”*
 - g. **Documents:** *“Are information or documents being withheld by the client or their representative, or do they appear to be falsified?”*

Transactions: “Are transactions unusual because of their size, frequency or the manner of their execution, in relation to the client’s known business type?”

- 3.2 This ‘red flag’ refers to the need to consider whether transactions undertaken by a business seem unusual relative to the type of business in question. During the course of my review I have identified a significant number of both petty cash payments and payments which appear to have been made directly to members of the Stati family.²⁵ Whilst neither petty cash payments nor payments to family members who are directly involved with a business are, in themselves, necessarily unusual, as I explain further below, the scale and frequency of the petty cash payments and payments to family members that I have identified raise concerns of money laundering by the Stati Parties under this ‘red flag’.
- 3.3 I set out below further details of the payroll petty cash payments and the payments to Stati family members that I have identified during the course of my work.

Payroll Petty Cash Payments

- 3.4 The KPM and TNG accounting records provided to me show that the majority of the petty cash payments that I was able to identify for both KPM and TNG relate to payroll payments.²⁶ In summary, the financial information provided to me shows that:
- a. KPM recorded net petty cash payroll expenses of USD 3.34 million, USD 3.39 million and USD 2.11 million during 2007, 2008 and 2009 respectively.²⁷
 - b. TNG recorded net petty cash payroll expenses of USD 3.16 million, USD 4.74 million and USD 3.38 million respectively.²⁸
- 3.5 I understand that in Kazakhstan wages can be paid by cash, but that this practice is less common than it used to be. Cash based payments are often considered to be higher risk payments and both the nature (i.e. payroll payments being made from petty cash) and the scale of the total payments by KPM and TNG over the three-year period of 2007 to 2009 of USD 20.1 million raise concerns under this ‘red flag’.

²⁵ These payments include payments made on behalf of/to various members of Stati family (i.e. those sharing the Stati surname).

²⁶ I identified these petty cash payroll payments by first extracting all cash voucher journals from the petty cash ledgers within the KPM and TNG accounting records provided to us (which cover the period 1 January 2007 to 31 December 2009). I then ran search terms across these journals for terms such as “salary” and “payroll” (these searches were performed in Russian, since the accounting records provided to us are also in Russian and accordingly were performed by Russian members of the team that have supported me on this work). I note that the amounts shown are net of any repayments by individuals of petty cash payroll payments that I also identified during the course of my work.

²⁷ See Appendix 3.1 for details and source information.

²⁸ See Appendix 3.1 for details and source information.

- 3.6 As part of my review of petty cash payroll payments, I also searched the KPM and TNG accounting records to assess whether these petty cash payment narratives included references to the term “Stati”. No such petty cash payments were identified.

Payments to Stati family members (and potentially relevant others)

- 3.7 My review of the bank statements provided to me identified a wide range of payments made which included references to Stati family members. I undertook searches of transaction narratives and counterparty descriptions contained in the bank statements provided to me for the word “Stati” and was able to identify a number of individuals with the family name “Stati”. A detailed breakdown of these payments is set out in Appendix 3.2. As shown in Appendix 3.2, these payments were made by the following seven companies:
- a. Gast Geophysical Ltd (“**Gast Geophysical**”);
 - b. Getter Investment Limited (“**Getter**”);
 - c. Hayden Interinvest Limited (“**Hayden**”);
 - d. Jepson Corporation Limited;
 - e. Melvin Production Inc (“**Melvin**”);
 - f. Terra Raf Trans Trading Limited (“**Terra Raf**”); and
 - g. Tristan.
- 3.8 Table 3.1 below summarises, by referenced payment type, the payments to Stati family members that I have identified.

Table 3.1: Sundry Stati related expenses, all amounts in USD

Payment type	2005	2006	2007	2008	2009	2010	Total
Credit card payments	178,463	489,930	520,288	983,500	754,200	577,702	3,504,083
Financing	4,267,600	2,289,484	16,575	27,500	36,000	6,000	6,643,159
Motor vehicles	422,730	50,908	278,831	-	-	-	752,469
Other	(5,020)	-	48,470	-	2,000	-	45,450
Payment of debt	166,252	129,610	229,012	430,494	123,893	12,820	1,092,081
Property	-	-	4,031,626	15,595	-	-	4,047,221
Representatives	-	25,000	60,000	-	-	-	85,000
Salary	-	-	-	-	50,000	-	50,000
Sponsorship	-	-	-	63,160	-	-	63,160
Travel / accommodation	-	11,610	-	24,584	14,971	48,458	99,623
Total	5,030,025	2,996,542	5,184,802	1,544,833	981,064	644,980	16,382,246

Source: Appendix 3.2.

- 3.9 As shown in the table above, over the six years covered by my review, over USD 16.38 million of personal expenses appear to have been paid out by the above mentioned entities to Stati family members. The level, nature and value of these payments being made raise further concerns under this ‘red flag’.
- 3.10 Of the USD 4.05 million shown as “*property*” payments in the table above, I note that USD 3.78 million relates to three payments made to “*Shopping City Sofia AD*” in May/June 2007 with the description for each payment containing “*for acquisition 100 shares in Samotino Rezidens EOOD by Mr.STATI ANATOL*”. I have undertaken independent research of “*Samotino Rezidens EOOD*”, which appears to be a Bulgaria-incorporated company of which Mr A Stati is listed as the “*sole capital owner*” and Dimitar Dimitrov (“**Mr Dimitrov**”) is listed as the “*manager*”.²⁹ However, based on my research, it would appear that this entity was incorporated in 2011 (i.e. four years after the above payments were made). I do not know the reasons for this discrepancy between the timing of the payment to this company and the apparent date of incorporation of this company. Similarly, I do not know the commercial rationale for the payments made to this company. Given these factors and given the fact that entity is also controlled by Mr A Stati and the scale of the three payments made to this entity, these transactions also raise additional concerns under this ‘red flag’.

²⁹ Website of The Bureau for Investigative Reporting and Data, Registry of companies, <https://bird.bg/tr?v=view&eik=175270110>, Exhibit PwC-047.

- 3.11 I have also identified further payments made by Getter and Hayden to Aiglon College Services SA³⁰ with respect to school fees which reference Stati family members (albeit subsequent to 2010). The amounts paid are set out in the table below.

Table 3.2: Payments made to Aiglon College on behalf of the Stati family, all amounts in USD

Entity	2013	2014	2015	2016	Total
Getter	-	33,715	89,392	-	123,107
Hayden	33,924	87,937	239,609	99,301	460,771
Total	33,924	121,652	329,001	99,301	583,878

Source: Appendix 3.2.

- 3.12 In addition to above mentioned payments made to and on behalf to the Stati family members, I also note that my review of Hayden’s bank statements indicated further USD 1.59 million of what appear to be other (i.e. not related to the Stati family) travel and accommodation expenses covering the period 16 October 2007 to 29 July 2010. This amount includes airfares totalling USD 1.42 million made to AS Travel S.R.L. during this period. I have only been provided with bank statements for Hayden and not any additional accounting records and so have been unable to establish the basis for these payments. However, I note that these payments include a payment of USD 5,000 made to Mr Dimitrov on 19 April 2010 for “*travel expenses*”. I have identified further payments totalling USD 765,831 paid by Hayden to Mr Dimitrov between November 2008 and April 2010.³¹ The descriptions for these payments include phrases such as “*marketing research*”, “*sponsorship*”, “*loan agreement*” and “*representatives*”. As noted above, Mr Dimitrov appears to be / have been the manager of Samotino Rezidens EOOD, a company formerly controlled by Mr Stati, but not incorporated until 2011. Since I do not have access to the accounting records for Hayden, I have been unable to establish the basis for these payments to Mr Dimitrov. In the absence of this information and given the scale of these payments and the related party nature of Samotino Rezidens EOOD, these transactions also raise further concerns under this ‘red flag’.
- 3.13 I also note on 29 April 2008, Hayden made a payment of GBP 325,457 (translated to USD 642,680) to Harrods Limited for various items, apparently including diamonds and watches.³² I have been unable to establish the reason(s) for these purchases, but flag this transaction here given the unusual nature of the purchases.

³⁰ I note that Aiglon College is an international boarding school in Switzerland (<https://www.aiglon.ch/>).

³¹ Rietumu Bank statements of Hayden, Exhibit PwC-023.

³² The description noted “*shopping Diamonds decoration; wrist-watch; Diamonds H. Stern; Extension*”. Rietumu Bank statements of Hayden, Exhibit PwC-023.

Structures: “Do activities involve complex or illogical business structures that make it unclear who is conducting a transaction or purchase?”

3.14 As explained at the start of this report, I understand that TNG’s and KPM’s roles were to undertake investments in Kazakhstan on behalf of the Stati Parties, including the construction of the LPG Plant. As I explain further below, as part of my review of the cash flows of TNG and KPM, it has become apparent that in many cases, TNG and KPM were not directly interacting with third parties in performing their activities, but were first interacting with a series of related parties who, in turn, would then interact with the relevant third parties. In the sub-sections below, I provide examples of this related party structure that was placed around TNG and KPM in relation to:

- a. Funds raised and transferred;
- b. Sales; and
- c. Purchases.

Funds raised and transferred

3.15 As explained in Section 1, the Stati Parties raised funds to finance TNG and KPM *inter alia* via loans note which were issued to third party noteholders. I understand that Tristan’s “purpose” was to issue these “Senior Secured Notes”³³, which were intended “to repay \$160.3 million outstanding under TNG’s existing bank credit facility, including prepayment premium, and to fund the working capital and general corporate purposes of KPM and TNG”³⁴.

3.16 Tristan issued USD 300 million of 10.5% “Senior Secured Notes” on 20 December 2006 with a further USD 120 million issued on 8 June 2007.³⁵ The Senior Secured Notes were secured on *inter alia* (1) 100% of the capital stock of Tristan and of KPM and TNG, as guarantors, and (2) all notes payable to Tristan by KPM, TNG and Terra Raf.³⁶ The notes were also secured “jointly and severally” by guarantees from TNG and KPM.³⁷

³³ Combined and Standalone audited Financial Statements of Tristan, KPM and TNG for the year ended 31 December 2006, page F-41, Note 1, Exhibit PwC-004.

³⁴ Tristan Prospectus for issue of Tristan Notes, page 25. Exhibit PwC-013.

³⁵ Tristan’s Annual Report, Combined and Standalone audited Financial Statements of Tristan, KPM and TNG for the year ended 31 December 2007, page F-64, Note 15, Exhibit PwC-005.

³⁶ Tristan’s Annual Report, Combined and Standalone audited Financial Statements of Tristan, KPM and TNG for the year ended 31 December 2007, page F-64, Note 15, Exhibit PwC-005.

³⁷ Tristan Prospectus for issue of Tristan Notes, Exhibit PwC-013.

- 3.17 On 22 December 2006, Tristan then lent USD 181 million and USD 30 million to TNG and KPM respectively³⁸ at an interest rate of 17.65% per annum and to be repaid by 22 December 2011. ³⁹ On 18 and 19 June 2007, Tristan lent a further USD 94 million and USD 20 million to TNG and KPM respectively⁴⁰ at an interest rate of 16% per annum. ⁴¹ The total amount lent by Tristan to KPM and TNG under these transactions was therefore USD 325 million.
- 3.18 In addition to lending funds to KPM and TNG, the bank statements provided to me show that Tristan also lent USD 76 million of the funds from the Tristan Notes to Terra Raf in 2006 and 2007.⁴² I note that the Tristan Prospectus explained the following in respect of funds to be transferred to Terra Raf: *“Tristan Oil used USD 76.0 million from the net proceeds of the Note Offering to make a loan to Terra Raf, at an interest rate of 0%. Terra Raf used USD 70.0 million of the proceeds from this loan to repay USD 15.9 million and USD 54.1 million of accounts payable to each of TNG and KPM with respect to sales of oil and condensate”*.⁴³
- 3.19 Table 3.3 below shows the value of the interest expenses recorded in TNG’s and KPM’s financial statements and compares these amounts with my calculation of the interest expense that would have been paid by TNG and KPM had their loans from Tristan been granted at a rate of 10.5% (i.e. the rate at which Tristan paid interest to the third parties from whom it raised the monies).

Table 3.3: Analysis of interest charged on to TNG and KPM by Tristan (all amounts in USD)

Year ended 31 December	KPM			TNG		
	Interest per Financial Statements	Notional interest at 10.5% p.a.	Difference in value of interest charged	Interest per Financial Statements	Notional interest at 10.5% p.a.	Difference in value of interest charged
2006	88,250	86,301	1,949	532,442	520,685	11,757
2007	7,092,986	4,277,671	2,815,315	40,536,868	24,332,096	16,204,772
2008	8,636,583	5,250,000	3,386,583	47,769,608	28,875,000	18,894,608
2009	7,228,386	4,372,984	2,855,402	44,630,941	26,927,945	17,702,996
TOTAL	23,046,205	13,986,957	9,059,248	133,469,859	80,655,725	52,814,134

Source: Appendix 3.3

³⁸ Rietumu Bank statements of Tristan, Exhibit PwC-027.

³⁹ Tristan’s Annual Report, Combined and Standalone audited Financial Statements of Tristan, KPM and TNG for the year ended 31 December 2007, pages F-62, F-97 and F-139. Exhibit PwC-005.

⁴⁰ Rietumu Bank statements of Tristan, Exhibit PwC-027.

⁴¹ Tristan’s Annual Report, Combined and Standalone audited Financial Statements of Tristan, KPM and TNG for the year ended 31 December 2007, page F-62. Exhibit PwC-005.

⁴² Rietumu Bank statements of Tristan, Exhibit PwC-027.

⁴³ Tristan Prospectus for issue of Tristan Notes, page 60. Exhibit PwC-013.

- 3.20 As shown in the table above, had KPM and TNG been charged 10.5% interest on their loans from Tristan (i.e. the underlying rate of interest that Tristan paid to third party lenders), they would have accrued a combined total of interest of USD 94.6 million during the period 22 December 2006 to 31 December 2009. This amount is USD 61.9 million less than the actual combined interest of USD 156.5 million accrued by KPM and TNG on these loans during this period.
- 3.21 I acknowledge that the above calculations do not take into account tax that would have been withheld by KPM and TNG on interest payments to Tristan, nor do they incorporate a margin to allow for the role Tristan may have played in securing the debt from external investors. In addition, I note that the first tranche of the Tristan Notes of USD 300 million was subject to a minimum of USD 12 million in arrangement fees (including consulting, legal fees, etc.), with Tristan receiving a net balance of USD 288 million from the notes issued.⁴⁴ It therefore may have been appropriate for Tristan to add a margin on top of the 10.5% when lending these funds onward to related parties to cover those additional costs. However, I do not have sufficient detail of the role that Tristan played in raising these funds to be able to form a view on those additional costs relative to the additional interest amount charged by Tristan to TNG and KPM. Notwithstanding this point, the level of additional charges on the debt of TNG and KPM (i.e. an additional USD 61.9 million as compared to a peak underlying loan principal of USD 325 million) appears disproportionate given that the loan arrangements fees were only USD 12 million and in the absence of sufficient evidence to support a role or function being carried out by Tristan that would justify such a mark-up.
- 3.22 As set out above, I also note that some of the funds raised by Tristan were transferred to Terra Raf, as envisaged under the Tristan Prospectus, in order to allow Terra Raf to repay intercompany loans balances owed to TNG and KPM. Table 3.4 below illustrates how the net proceeds from the initial tranche of the loan notes in December 2006 was applied to the loans to TNG, KPM and Terra Raf.

Table 3.4: Illustration of the application of initial tranche of USD 300 million loan note funds

Entity	Comment	USD cash	Date
Tristan	Net cash receipt from December 2006 loan note funding	288,020,521	22 Dec 2006
KPM	Payment to KPM “as per loan agreement”	(30,000,000)	22 Dec 2006
TNG	Payment to TNG “as per loan agreement”	(181,000,000)	22 Dec 2006
Terra Raf	Payment as “as per Promissory Note dd 20.12.2006; For financing”	(3,000,000)	27 Dec 2006
Terra Raf	Payment as “as per Promissory Note dd 20.12.2006; For financing”	(3,000,000)	28 Dec 2006

⁴⁴ Rietumu Bank statements of Tristan: USD 288,020,521.02 receipt recorded on 22 December 2006. Exhibit PwC-027.

Terra Raf	Payment as “per Promissory Note dd 20.12.2006; For financing”	(70,000,000)	08 Dec 2007
Remaining balance		1,020,521	

Source: Rietumu bank statements of Tristan, Exhibit PwC-027.

- 3.23 I note that, in contrast to the onerous interest rates applied to Tristan’s loans to KPM and TNG, Terra Raf’s loan was interest free.⁴⁵ I have seen no rationale as to why this loan was granted on such favourable terms.
- 3.24 I have analysed the bank statements of Tristan and Terra Raf and set out in the table below the total payments and receipts between these two bank accounts by year from 2006 to 2010, which shows that Tristan made net payments of USD 118.4 million to Terra Raf over this period.

Table 3.5: Tristan: payments to and receipts from Terra Raf (all amounts in USD)

Year Ended	(Payments) to Terra Raf	Receipts from Terra Raf	Net Movement
31 Dec 2006	(6,000,000)	-	(6,000,000)
31 Dec 2007	(70,000,000)	659,600	(69,340,400)
31 Dec 2008	-	23,000	23,000
31 Dec 2009	(46,459,500)	2,635,100	(43,824,400)
31 Dec 2010	(1,155,500)	1,927,151	771,651
Total	(123,615,000)	5,244,851	(118,370,149)

Source: Rietumu Bank statements of Terra Raf and Tristan. Exhibits PwC-026 and PwC-027 respectively.

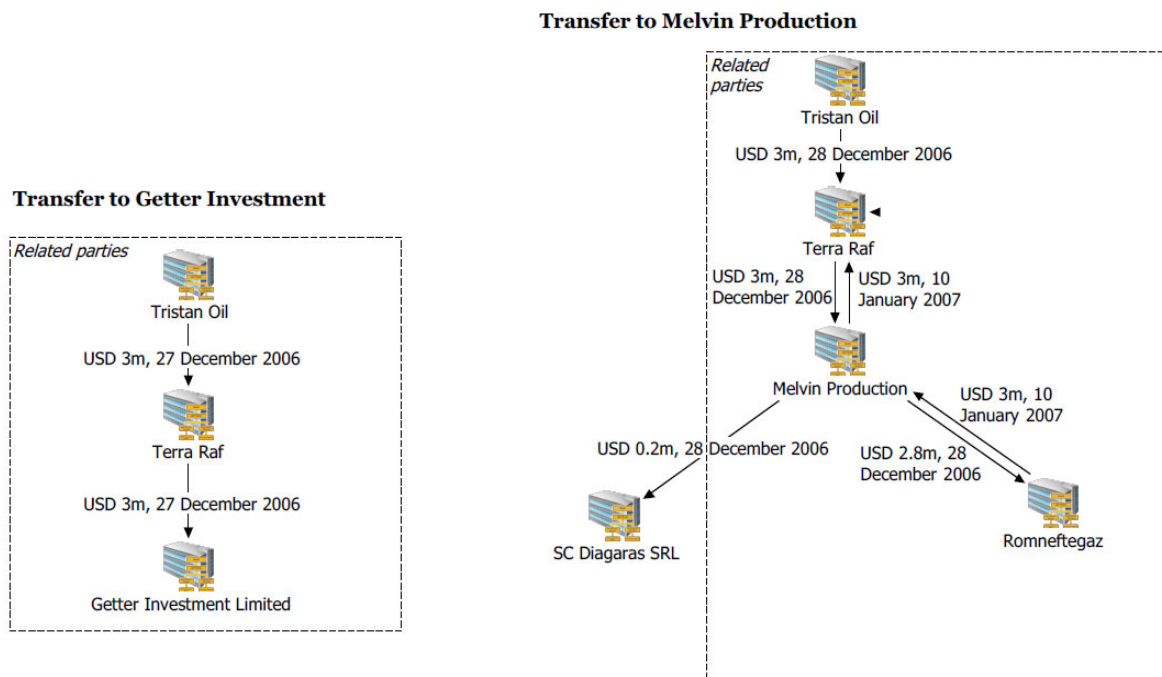
- 3.25 I have undertaken a separate exercise to seek to establish how the monies loaned by Tristan to Terra Raf were then subsequently utilised by Terra Raf. The volume of transactions entering in to and out of Terra Raf’s bank statements means that it is not always possible to directly match cash inflows from Tristan to subsequent cash outflows.⁴⁶ However, as detailed below, I have been able to identify a number of instances where payments from Tristan to Terra Raf then appear to have been directly paid straight out by Terra Raf to other entities.

⁴⁵ Tristan’s Annual Report, Combined and Standalone audited Financial Statements of Tristan, KPM and TNG for the year ended 31 December 2007, page F-62, Note 10. Exhibit PwC-005.

⁴⁶ For example, I note that the USD 70 million loan from Tristan to Terra Raf in 2007 was not immediately followed by a direct payment onwards to KPM or TNG. Instead, the next payment made by Terra Raf after receiving the USD 70 million loan from Tristan was a USD 4.0 million payment, two days later, which Terra Raf made to Romneftegaz. Terra Raf’s bank statements then show a mix of other incoming and outgoing cash flows, including monies paid to Terra Raf by Vitol and also monies paid by Terra Raf to a range of related companies, including Stadoil and General Affinity. Source: Rietumu Bank statements of Terra Raf and Tristan. Exhibits PwC-026 and PwC-027 respectively.

3.26 The initial USD 6 million transferred from Tristan to Terra Raf shown in Table 3.5 above was paid in two tranches on 27 and 28 December 2006. Of this total USD 6 million, I have been able to establish that USD 3 million was transferred to Getter on 27 December 2006⁴⁷ and that USD 3 million was transferred to Melvin on 28 December 2006⁴⁸ (both of which I am instructed are parties under common control of the Stati Parties). These fund flows are illustrated in the figure below.

Figure 3.1: Illustration of the transfer to Getter and Melvin of Tristan’s loan to Terra Raf



Source: Rietumu Bank statements of Getter and Melvin, Exhibit PwC-022 and Exhibit PwC-025.

⁴⁷ Rietumu Bank Statements of Terra Raf, transaction II0612271764970, 27 December 2006, Exhibits PwC-026.

⁴⁸ Rietumu Bank Statements of Terra Raf, transaction II0612281761671, 28 December 2006, Exhibits PwC-026.

- 3.27 The USD 3 million shown in the above figure as paid to Getter brought Getter's bank account out of overdraft, an overdraft that arose principally from a USD 2.9 million transfer to Terra Raf two weeks prior.⁴⁹ Following this, Getter made three transfers to Romneftegaz LLC ("**Romneftegaz**") between 3 and 8 January 2007 totalling USD 1.2 million⁵⁰ before receiving USD 1.03 million back from Romneftegaz on 10 January 2007.⁵¹
- 3.28 The USD 3 million that was transferred from Terra Raf to Melvin on 28 December 2006 can be seen to be immediately transferred to Romneftegaz, who I understand is also a related party to Melvin, and to SC Diagaras SRL. USD 2.8 million⁵² and USD 0.2 million⁵³ were transferred to the two parties respectively. SC Diagaras SRL is, I understand, not a known related party although certain indicators, such as an email address⁵⁴, could infer that it is.
- 3.29 Romneftegaz transferred USD 3 million back to Melvin on 10 January 2007.⁵⁵ Melvin then immediately transferred this balance back to Terra Raf on the same date.⁵⁶ This results in a web of related party transactions that effectively end up with the money being transferred back to Terra Raf over a period of time. I do not know the role(s), if any, that these related parties played in supporting the operations of TNG and KPM in Kazakhstan and therefore have been unable to establish the rationale for this intercompany structure that was put in place by the Stati Parties. In the absence of further details on why this structure was put in place, the structure of these transactions raises concerns of money laundering by the Stati Parties under this 'red flag'.
- 3.30 Further examples of similar structures can also be seen when the other payments from Tristan to Terra Raf are analysed. By way of example, I illustrate below the fund flows related to a USD 24 million promissory note which was issued by Tristan to Terra Raf in June 2009.⁵⁷

⁴⁹ Rietumu Bank Statements of Getter, transactions from 14.12.2006- 27 December 2006, Exhibit PwC-022.

⁵⁰ Rietumu Bank Statements of Getter, transactions II0701031761134, II0701051761252 and II0701081762871, 3, 5 and 8 January 2007. The transaction narratives referenced "*pmt as per contract*" and "*for consulting services*". In addition to these payments, on 27 December 2006, Getter transferred USD 270,000 to an entity called Investprivatbank S.A., referencing "*pmt as per contract*" (IV0612271765178), Exhibit PwC-022.

⁵¹ Rietumu Bank Statements of Getter, transaction II0701101761979, 10 January 2007, Exhibit PwC-022.

⁵² Rietumu Bank Statements of Melvin, transaction II0612281761993, 28.12.2006, Exhibit PwC-025.

⁵³ Rietumu Bank Statements of Melvin, transaction IV0612281761993, 28.12.2006, PwC-025.

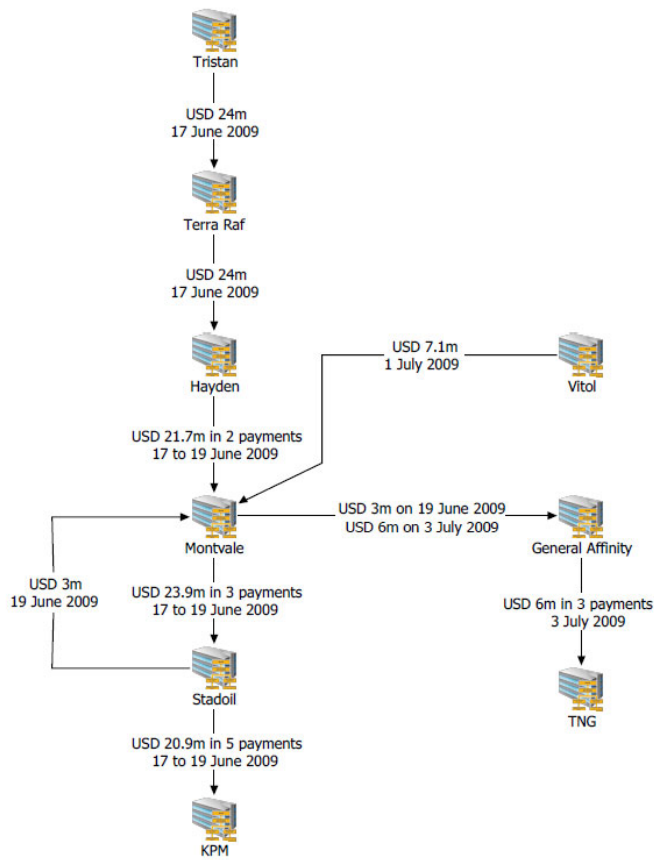
⁵⁴ Email address identified as "info@stati-co.md" (<https://www.stroyka.md/en/companies/diagaras-srl>), Exhibit PwC-048.

⁵⁵ Rietumu Bank Statements of Melvin, transaction II0701101761936, 10.01.2007, Exhibit PwC-025.

⁵⁶ Rietumu Bank Statements of Melvin, transaction II0701101762009, 10.01.2007, Exhibit PwC-025.

⁵⁷ Tristan's Annual Report, Combined and Standalone Financial Statements of Tristan, KPM and TNG for the year ended 31 December 2009, page F-69, Note 10. Exhibit PwC-007.

Figure 3.2: Illustration of transfer of USD 24 million loan from Tristan to Terra Raf



Source: Rietumu Bank statements of General Affinity, Stadoil, Montvale, Hayden, Terra Raf and Tristan. Exhibits PwC-032, PwC-033, PwC-031, PwC-023, PwC-026, PwC-027.

- 3.31 As illustrated in the figure above, the USD 24 million lent by Tristan on 17 June 2009 to Terra Raf⁵⁸ was passed to Hayden on the same date⁵⁹. Hayden then transferred USD 14.3 million to Montvale Invest LTD (“**Montvale**”)⁶⁰, also on the same date as the original transfer from Tristan. A further USD 7.4 million was transferred to Montvale on 19 June 2009⁶¹ taking the total transferred to Montvale to USD 21.7 million. Montvale then transferred USD 23.9 million⁶² to Stadoil Limited (“**Stadoil**”) in three payments. Finally, Stadoil transferred USD 20.9 million to KPM in five payments between 17 and 19 June 2009.⁶³ A further USD 3 million was also transferred back to Montvale on 19 June 2009.⁶⁴ Montvale then paid USD 3 million to General Affinity LTD (“**General Affinity**”) on 19 June 2009.⁶⁵
- 3.32 I understand that generally, funds that were transferred from Terra Raf (until end June 2007) and Montvale (from July 2007) through Stadoil (for KPM) or General Affinity (for TNG) were in respect of payments for oil sold by Terra Raf/Montvale (both of which are related parties to the Stati Parties) to Vitol. For example, on 1 July 2009, Montvale received USD 7.1 million from Vitol.⁶⁶ Subsequent to receiving this, Montvale transferred a USD 6 million to General Affinity on 3 July 2009.⁶⁷ General Affinity then paid USD 6 million to TNG in three payments on 3 July 2009.⁶⁸
- 3.33 Again, although I have been able to trace a number of funds discussed above flowing back to KPM and TNG, I have been unable to establish the rationale for the structure of the transactions discussed above and the role that each related party played in the transaction structures established. In the absence of a commercial rationale for these structures, they raise concern under this ‘red flag’.

⁵⁸ Rietumu Bank Statements of Tristan, transaction II0906171760387, 17 June 2009, Exhibit PwC-027.

⁵⁹ Rietumu Bank Statements of Terra Raf, transaction II09061717604986, 17 June 2009. Exhibit PwC-026.

⁶⁰ Rietumu Bank Statements of Hayden, transaction II0906171760690, 17 June 2009. Exhibit PwC-023.

⁶¹ Rietumu Bank Statements of Hayden, transaction II0906191761799, 17 June 2009. Exhibit PwC-023.

⁶² Rietumu Bank Statements of Montvale, three transfers: USD 10.0 million on 17 June 2009; USD 6.6 million on 17 June 2009; and USD 7.4 million on 19 June 2009. Transactions II0906171760677, II0906171760680 and II0906191761787. Exhibit PwC-031.

⁶³ Rietumu Bank Statements of Stadoil, five transfers: USD 6.3 million and USD 10.3 million on 17 June 2009; USD 3.0 million, USD 1.0 million and USD 0.4 million on 19 June 2009. Transactions IV0906161761370, IV0906161761374, IV0906191761763, IV0906191761766, and IV0906191762199. Exhibit PwC-033.

⁶⁴ Rietumu Bank Statements of Stadoil, transaction II0906191762208, 19 June 2009. Exhibit PwC-033.

⁶⁵ Rietumu Bank Statements of Montvale, transaction II0906191762215, 19 June 2009. Exhibit PwC-031.

⁶⁶ Rietumu Bank Statements of Montvale, transaction SAP907010001084 (1 July 2009). Exhibit PwC-031.

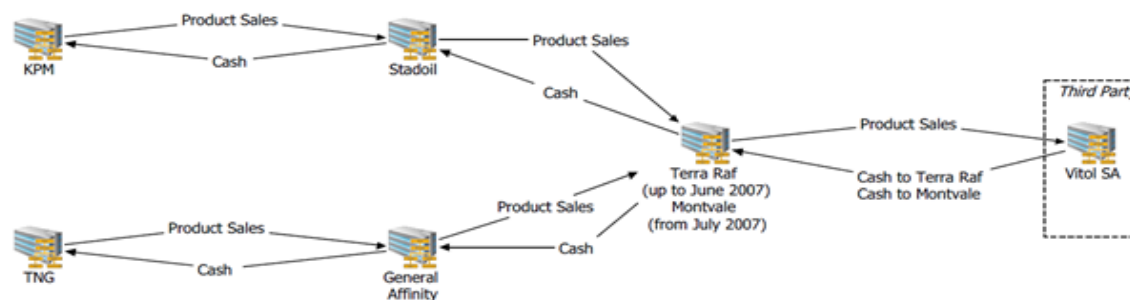
⁶⁷ Rietumu Bank Statements of Montvale, transaction II0907021761983 (3 July 2009). Whilst not shown in the diagram above, Montvale transferred USD 1.1 million of the USD 7.1 million to Hayden. Rietumu Bank Statements of Montvale, transaction II0907021761983 (3 July 2009). Exhibit PwC-031.

⁶⁸ Rietumu Bank Statements of General Affinity, transactions IV0907021761926 (3 July 2009), IV0907021761934 (3 July 2009) and IV0907021761944 (3 July 2009). Exhibit PwC-032

Sales

- 3.34 As noted above, sales made by TNG and KPM flowed through related parties prior to reaching the corresponding third party. Figure 3.3 below illustrates the flow of funds that I have identified in relation to the export sales of crude oil and gas condensate by KPM and TNG.

Figure 3.3: Illustration of the export sales process for crude oil and gas condensate



Source: Rietumu Bank statements for Stadoil, General Affinity, Terra Raf and Montvale. Exhibits PwC-033, PwC-032, PwC-026, PwC-031.

- 3.35 As can be seen from the illustration above, my analysis of the bank statements provided to me has identified that KPM's and TNG's crude oil and gas condensate sales passed through Stadoil, General Affinity, Terra Raf / Montvale (all of which are related parties) before reaching the ultimate third party, Vitol SA ("**Vitol**").
- 3.36 For the purpose of my analysis of Vitol's payments to these parties, I have been instructed that Arkham S.A. ("**Arkham**") and Vitol FSU were related parties to Vitol. In my analysis presented below, I have therefore aggregated cash receipts from Vitol, Arkham and Vitol FSU in respect of crude oil and gas condensate sales.
- 3.37 I have seen no evidence that the sales made ultimately to Vitol were not legitimate sales. However, as I explain further below, it is the structure of this sales process, as well as the subsequent related party cash flows as part of that process that I have been unable to establish a commercial rationale for.
- 3.38 I set out below my analysis of the cash payments received and effectives retained by KPM's and TNG's related parties from export sales of crude oil and gas condensate. I have calculated this by analysing the total payments made by Vitol to Terra Raf (and then to Montvale from July 2007), and comparing this amount to the total cash payments made to KPM and TNG by Stadoil and General Affinity respectively. The difference between these amounts, as set out in the table below, represents the cash retained by the Stati Parties on the basis of product sales, and not passed on to KPM and TNG as the ultimate suppliers of the product.

- 3.39 The analysis that I have performed is based on the bank statements that have been provided to me. I note that not all descriptions for the cash receipts and payments from/to Vitol (and Arkam S.A. and Vitol FSU) contained references to the particular agreement they were made under. It has therefore not been possible to match and allocate transactions without references to particular agreements to the sales transactions between General Affinity and TNG and Stadoil and KPM. I note that the bank statement narratives for these transactions include, *inter alia*, references to loans, interest, demurrage costs etc. Without further references on the bank statements, or without further information in respect of these payments (and access to the agreements which underlie these payments) I have been unable to establish that they directly relate to sales / transactions in respect of TNG and KPM. However, given that many of the payments in the relevant bank statements do contain references to KPM and TNG (and in the absence of any evidence to the contrary), for the purposes of my analysis presented below, I have been assumed that was the case.
- 3.40 As shown in the table below, the total value of cash receipts received from Vitol and retained by related parties (Terra Raf, Montvale, Stadoil and General Affinity) amounted to USD 262.9 million over the period of my review.⁶⁹

Table 3.6: Summary net cash receipts from Vitol⁷⁰ that appear to have been diverted to the related parties and not paid to KPM / TNG

USD	5M 2005	2006	2007	2008	2009	7M 2010	Total
Total value of sales from Terra Raf and Montvale to Vitol	51,277,955	245,941,013	194,626,160	532,508,870	56,238,443	15,293,527	1,095,885,968
Sales proceeds retained by Terra Raf and Montvale	43,067,955	79,699,663	8,219,610	138,174,499	(30,936,957)	12,515,527	250,740,298
Sales proceeds retained by Stadoil	500	1,662	800	12,764	11,438	-	27,164
Sales proceeds retained by General Affinity	-	1,410	1,145	(2,878,452)	14,985,573	3,000	12,112,676
Total sales proceeds retained by related parties and not received by KPM and TNG	43,068,455	79,702,736	8,221,555	135,308,811	(15,939,946)	12,518,527	262,880,138

Source: Appendix 3.4.

⁶⁹ Detailed breakdown is included in Appendix 3.4, Tables 3.4a- 3.4e.

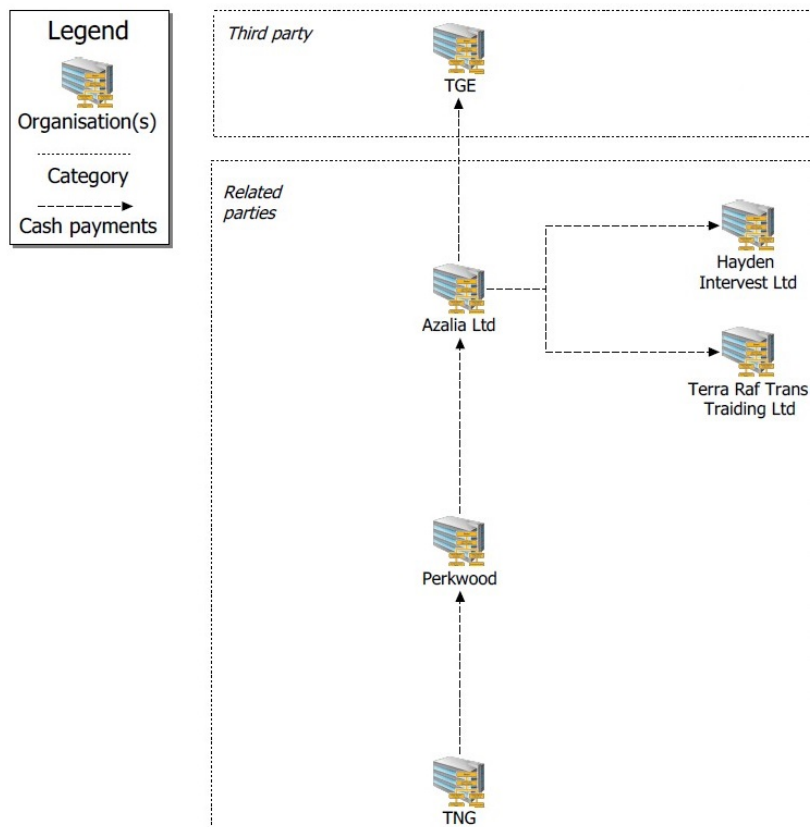
⁷⁰ Net cash receipts from Vitol, and/or its nominees Arkham and/or Vitol FSU.

- 3.41 In the absence of any explanation as to the commercial rationale for this intercompany structure, and given the scale of the total sales to Vitol that appear to have been retained by the related parties, rather than passing back to KPM and TNG, this structure raises additional concerns of money laundering by the Stati Parties under this ‘red flag’.

Purchases

- 3.42 Figure 3.4 below illustrates the flow of cash that I have been able to identify in relation to the purchase of plant and equipment for the LPG Plant from a third party called Tractebel Gas Engineering GmbH (“TGE”).

Figure 3.4: Overview of key cash flows for the purchase of TGE Equipment⁷¹ by TNG



Source: Rietumu Bank statements for Perkwood Investment Ltd, Azalia LLC, Terra Raf Trans Trading Ltd and Hayden Interest Ltd. Exhibits PwC-034, PwC-035, PwC-026, PwC-023.

⁷¹ LPG equipment acquired from a German third party manufacturer and supplier, TGE

- 3.43 As can be seen from the figure above, rather than purchasing plant and equipment for the LPG Plant directly from the third party supplier, TGE, TNG instead entered into a sale and purchase agreement with Perkwood Investment Ltd (“**Perkwood**”) and made payments to Perkwood (a related party), who then made payments to Azalia LLC (“**Azalia**” or “**Azaliya**”) (another related party), who then in turn made payments to the third-party, TGE.
- 3.44 Of this amount, I understand that approximately USD 115.0 million⁷² relates to costs charged by Perkwood to TNG for the LPG plant and equipment that was purchased from TGE. I have also been able to establish that Azalia then paid USD 34.2 million of this amount to TGE⁷³. It therefore appears that TNG was charged USD 115.0 million for plant and equipment purchased (via Perkwood and Azalia) from TGE for USD 34.2 million. In other words, the amounts charged by Perkwood to TNG were USD 80.8 million (136%) higher than the amounts charged by the third party supplier, TGE, providing the plant and equipment.

⁷² Sales and Purchase Agreement No. 01/01_TNG_PRK between TNG and Perkwood dated 17 February 2006 with amendments and appendices, Exhibit PwC-049. I understand that the relevant costs in this agreement for the plant and equipment to be purchased from TGE are those in Appendix 2 (which have a value of USD 93.1 million) and the first three items in Appendix 14 (which have a total value of USD 21.9 million). See Exhibits PwC-050 and PwC-051 for details. I understand that these items were paid for by TNG as part of its total payments to Perkwood that I have identified, and which are discussed in this report.

⁷³ I have identified direct cash payments made by Azalia to TGE total USD 17.7 million, which equates to approximately half (50.6%) of the total expected USD 35 million cost of the plant from TGE. My further review of Azalia’s bank statement shows that on 3 May 2006 a payment of USD 16.6 million was made using the reference “Cash cover”. I understand that this USD 16.6 million was paid to TGE through a documentary letter of credit issued by Rietumu Bank to a German bank with TGE being its beneficiary. The total cash payments made by Azalia to TGE including the “Cash Cover” therefore amount total USD 34.2 million. I have not been able to trace the remaining USD 0.7 million difference to the USD 35 million noted above. Details of the specific payments identified are set out in Appendix 3.5 of this report.

- 3.45 I understand from HSF that in a number of their defences / pleadings, the Stati Parties have alleged that an element (c. USD 44 million) of the amounts paid by TNG to Perkwood was for a 'management fee'. However, I have not identified any references to 'management fee' payments (or equivalent) in the transaction narratives included in the bank and accounting ledger data that I have reviewed. In addition, I understand that Perkwood was in fact a dormant company,⁷⁴ with no employees, at the time of the payments made to it by TNG, further bringing into question the justification for any such 'management fee' (or other mark-up charged on the underlying equipment purchased from TGE). Finally, as can be seen from Figure 3.4 above, Perkwood itself did not retain the monies received from TNG, but instead transferred them on to Azalia, who then, in-turn, paid a significant proportion of them on to related parties. I have not seen any information to justify the commercial rationale of the role that Hayden and Terra Raf performed to justify the respective gross cash outflows to them of USD 94.2 million and USD 53.6 million respectively that are illustrated in Figure 3.4 above.
- 3.46 I have also undertaken a review of the TNG accounting records provided to me to establish how TNG accounted for the costs of the plant and equipment purchased for the LPG Plant. From this review, I note that TNG received loans from Tristan to finance the LPG Plant construction. In turn, TNG paid to Perkwood, cash and cash advances for the LPG Plant. As a result, TNG recorded a loan payable balance to Tristan in its accounts and, in respect of the cash advances, a prepayment / loan receivable balance with Perkwood⁷⁵ was also established.

⁷⁴ Defendant's Points of Claim in the English High Court, paragraph 2 (2), Exhibit PwC-016. This is also referred to in the KPMG / Stati Party correspondence that has been provided to me, in a letter dated 15 February 2016, Exhibit PwC-052.

⁷⁵ Tristan's Annual Report, Combined and Standalone Financial Statements of Tristan, KPM and TNG for the year ended 31 December 2009, pages F-53 and F-174, Notes 34 (c) and 31 (c) respectively: "Events subsequent to the reporting date" disclose that "[i]n the view of the expected sale of the Companies, owners of the Companies decided to stop construction of the LPG plant and agreed with Perkwood Investments Ltd. to cancel the delivery of the necessary equipment and to return the advance paid in the amount of USD 36,800,212." Further on page F-164, Note 27(c): "due to financial difficulties experienced by the Company the repayment of the interest was extended until demanded without any penalties. Subsequent to the balance sheet date the interest was repaid by means of offset of...advances paid to Perkwood Investments Ltd." Exhibit PwC-007.

- 3.47 I understand that Perkwood was required to repay the principal amount of the loan to TNG.⁷⁶ However, I note from the underlying accounting records provided to me, that Perkwood did not repay this loan to TNG by way of a cash transfer. Instead TNG credited (i.e. reduced) the loan receivable from Perkwood and debited (i.e. reduced) the loan payable to Tristan. This process appears to have been used to “repay” the loan interest and loan principal payable to Tristan, without any transfer of cash (the value of this offset was USD 36.8 million).⁷⁷
- 3.48 Given I have been unable to establish the role(s) that Perkwood, Azalia, Hayden and Terra Raf played in procuring plant and equipment from TGE, I have been unable to establish a commercial rationale for the related party structure that was put in place for the purposes of TNG’s purchases of plant and equipment ultimately from TGE. In the absence of such explanation, the structure illustrated above raises further concern of money laundering by the Stati Parties under this ‘red flag’. In the case of Perkwood, a dormant company with no employees, it is unclear how such value diversion could be justified. The business structure established by the Stati Parties would therefore appear both complex (with, as shown in the various figures above, wider groups of related parties also becoming part of the wider cash cycle) and, certainly in the case of Perkwood, without commercial logic.

Identity: “Has a client taken steps to hide their identity, or is the beneficial owner difficult to identify?”

- 3.49 As worded, this ‘red flag’ talks to the risks that may arise when seeking to identify a client. For the purposes of this report I have used the risk of “identity” to consider whether there are examples where the Stati Parties appear to have sought to conceal the identity of specific transactions and / or entities.

⁷⁶ Letter to Mr Lungu from E.Calancea, the General Director of TNG, for offset of cash paid to Perkwood and loans payable to Tristan Oil Ltd. Sales and Purchase Agreement No. 01/01_TNG_PRK between TNG and Perkwood dated 17 February 2006 with amendments and appendices, Exhibit PwC-049.

⁷⁷ Tristan’s Annual Report, Combined and Standalone audited Financial Statements of Tristan, KPM and TNG for the year ended 31 December 2009, page F-174, Note 31 (c). Exhibit PwC-007.

- 3.50 As explained at the start of this report, I have been provided with copies of certain 2016 to 2019 correspondence between the Stati Parties and KPMG, the auditors of TNG and KPM. A copy of this correspondence is included at Exhibit PwC-052 to this report. I note from this correspondence that KPMG allege that Mr A Stati failed to identify Perkwood as a related party in representations to KPMG, during the time of KPMG’s audit of KPM and TNG. Further, my own review of TNG’s financial statements and the underlying transactions with Perkwood that I have discussed above also confirms that these transactions were not disclosed as related party transactions in TNG’s 2007 to 2009 financial statements. I do not know why Mr A Stati did not identify Perkwood as a related party and, further, why Perkwood was not disclosed as a related party in TNG’s audited financial statements. However, this raises concerns under this “identity” red flag, particularly if the failure to identify Perkwood as a related party was deliberate by Mr A Stati.
- 3.51 Further, as detailed above, the intercompany / related party structure put in place around TNG and KPM is also a relatively complex one, with the entities generally interacting directly with third parties not being KPM or TNG, but other related parties. During my review I have also identified a number of payments which appear to circulate around various of these related parties before being returned to the original sender. For example, on 20 February 2007, a USD 9.0 million payment was circulated between Terra Raf, Ascom, Ascom Sudd Operating Company Limited, Casco Petroleum Overseas and Pulmer Management (all of whom I am instructed are related parties) before seemingly returned back, on the same day, to Terra Raf.⁷⁸ During the period 20 February 2007 to 2 May 2007, I have identified payments totalling USD 126.8 million which appear to have followed the same flow through the chain of related parties set out in my example above.⁷⁹ I have been unable to establish the commercial rationale for these chains of transfers between related parties and, in the absence of such a rationale, transaction structures such as these raise further concerns under both this money laundering red flag and also with regards to other areas discussed in this report, such as the complexity of transactional structures.
- 3.52 My review of KPM’s and TNG’s accounting records has also identified a number of instances whereby cash payments made by KPM / TNG were recorded as being payments to Ascom S.A. (“**Ascom**”) but where the actual beneficiaries of these cash payments were not in fact Ascom, but another related party, namely Terra Raf. Details of these transactions are set out in the two tables below.

Table 3.7: KPM unusual transactions review

Year	Debit per 1C	Credit per 1C	Actual recipient per the bank statement	USD
2007-2008	Long-term and short-term interest payable	Cash at bank - paid to Ascom	Terra Raf: i 2007: USD 2,001,066; ii 2008: USD 14,710,616.	16,711,682

⁷⁸ Appendix 3.6.

⁷⁹ Appendix 3.6.

Source: Extract from KPM's 1C Ledgers with journal entries and transactions between KPM and Ascom S.A. and KPM's Bank statements for account #KZ559261401107068001. Exhibits PwC-054 and PwC-053.

Table 3.8: TNG unusual transactions review

Transaction	Year	Debit per 1C	Credit per 1C	Actual recipient per the bank statement	USD
1	2007	Short-term interest payable to Ascom	Cash at bank- paid to Ascom	Terra Raf	8,190,069
2	2008	Loans payable to Ascom	Cash at bank- paid to Ascom	Terra Raf	53,848,054
3	2008	Short-term interest payable to Ascom	Cash at bank- paid to Ascom	Terra Raf	2,726,192

Source: Extract from TNG's 1C Ledgers with journal entries and transactions between TNG and Ascom S.A. and TNG's bank statements for accounts #KZ289261401110550011, #KZ719261401110550013, Exhibits PwC-055, PwC-030 and PwC-008.

- 3.53 I have not been able to establish why these payments were recorded in the underlying books and records of KPM and TNG as being paid to one entity but were then in fact paid to other entities. Again, this would be a further concern under this 'red flag'.

Geographical Area: “Is the collateral provided, such as property, located in a high-risk country, or are the client or parties to the transaction native to or resident in a high-risk country?”

- 3.54 Although as phrased this 'red flag' refers to a specific transaction, the principle of this 'red flag' is that if businesses have operations or transactions with countries with high money laundering / corruption risks, then this may also raise 'red flags'. I set out details below of a number of trading relationships with higher risk countries that I have identified during my review of the data provided to me.
- 3.55 Firstly, through my analysis of Hayden's bank statements (and subsequently the bank statements of Lenwell Solutions INC (“**Lenwell**”) and Komet Group SA (“**Komet**”), both of whom I understand are related parties),⁸⁰ I have identified three transactions of USD 20 million each (i.e. total of USD 60 million) made in August 2008 by Komet to a company called Zozik Co.⁸¹ It is my understanding that Zozik Co. has affiliations with the Patriotic Union of Kurdistan (“**PUK**”), a political party operating in the disputed territory of Kurdistan (i.e. a high risk jurisdiction, see below).⁸² I note that these payments in Komet's bank statements immediately succeeded payments for identical amounts from Lenwell, which in turn received its funds from Hayden, as discussed above.

⁸⁰ I am instructed that this entity is a related party.

⁸¹ See Appendix 3.7

⁸² Exhibit PwC-056 and Exhibit PwC-057, paragraph 146.

- 3.56 In addition to the USD 60 million payments made to Zozik Co. by Komet, I note that Pellat International LTD (“**Pellat**”) (who I understand is also a related party) made a payment of USD 7.8 million to Zozik Co. on 2 July 2008 following a transfer of funds from Hayden.⁸³
- 3.57 I have undertaken a Sanctions List Search of OFAC⁸⁴ and the PUK does not appear to be a sanctioned organisation. However, I note that the region of Kurdistan is a disputed political territory with the relevant part that Komet appeared to be dealing with being located in Iraq. I note that Iraq has a Corruption Perceptions Index of 20 per Transparency International’s 2019 study⁸⁵ and would accordingly be considered high risk for money laundering purposes.
- 3.58 In addition to the above payments in July (from Pellat) and August 2008, Komet made payments totalling USD 5 million to Gast Geophysical (who I am instructed is a related party) and USD 15.5 million to Casco Petroleum Middle East (who I am instructed is also a related party) between 1 July 2010 and 6 July 2010.⁸⁶ I note these payments were made immediately after corresponding payments into Komet’s account from Lenwell, which in turn received payments from Hayden.⁸⁷ The description of the payments to Gast Geophysical referenced “*seismic services*” while the payments to Casco Petroleum Middle East referenced “*Barda Rash exploration well*”. This would appear to refer to Bardarash, which is located within the Kurdistan region of Iraq. As stated above, these payments would also appear to represent payments made into a high-risk jurisdiction with international sanctions considerations potentially coming into play as a result of its geographical location.
- 3.59 Accordingly, a number of the transactions that I have identified from my review are with high risk territories and hence would raise concerns under this ‘red flag’.

Political Status: “Is the client engaged in unusual private business given that they hold a prominent public title or function? Or do they have ties to an individual of this nature?”

- 3.60 For the purposes of my analysis under this ‘red flag’, I have sought to identify any payments from within the data provided to me to individuals and / or organisations which have a relevant political status.
- 3.61 My analysis of Hayden’s bank statements revealed payments to individuals who I understand may be classed as Politically Exposed Persons (“**PEPs**”). Details of these individuals and the relevant payments to them are set out below.

⁸³ Refer to Appendix 3.7.

⁸⁴ The Office of Foreign Assets Control website (<https://sanctionssearch.ofac.treas.gov>).

⁸⁵ Transparency International website (<https://www.transparency.org/country/IRQ>), Exhibit PwC-015.

⁸⁶ Refer to Appendix 3.7.

⁸⁷ Refer to Appendix 3.7.

*Victor Prodan*⁸⁸

3.62 I note that Hayden paid USD 8,565 for accommodation expenses made on behalf of an individual named “*Victor Prodan*”. I note that an additional USD 62,693 was paid to Victor Prodan from July 2007 to June 2009 for what appears to be credit card payments. I note that a further USD 13,000 was also paid to an individual named a “*Tatiana Prodan*” for “*sponsorship*”. I understand that an individual named Victor Prodan was “*the mayor of Ungheni*”, town in Romania between 2012 and 2016. During his time as mayor, Victor Prodan was charged and investigated for “*complicity in abuse of office and money laundering*.”⁸⁹

*Sarbaz H Hawrami*⁹⁰

3.63 During the course of my review, I also identified a total of USD 1.503 million paid to an individual named “HAWRAMI SARBAZ N.HAWRAMI” from September 2010 to February 2013.⁹¹ The payment descriptions for these transactions include “*bonuses and salary payment*” and “*representatives fees*”. Based on a negative news search undertaken, it would appear that Sarbaz H Hawrami (“**Mr Hawrami**”) was associated with the local government of Kurdistan in Iraq (i.e. potentially considered a Politically Exposed Person)⁹².

*Iurie Leanca*⁹³

3.64 I note that a number of entities (i.e. not just Hayden) made various payments to someone with the name of Iurie Leanca (“**Mr Leanca**”). I understand that Mr Leanca was the Prime Minister of Moldova from 2013 to 2015.⁹⁴ Mr Leanca received payments totalling USD 181,724 between 2003 and 2013 from Terra Raf, Hayden, Bert Management Consulting Group (“**Bert Management**”) and Ascom Group Limited.⁹⁵

3.65 I set out here details of the largest individual payments made to Mr Leanca:⁹⁶

- a. USD 24,043 payment from Ascom Group Limited on 26 February 2004 to “*Mondia FZ LLC*” with the description being “*Annual rent year 2004; for premises; on behalf of Iurie Leanca*”;

⁸⁸ Further details of the specific payments noted here are set out in Appendix 3.7 of this report.

⁸⁹ Exhibit PwC-058.

⁹⁰ Further details of the specific payments noted here are set out in Appendix 3.7 of this report.

⁹¹ However, the bulk of the payments came in three tranches of two payments of USD 250,000 each made in December 2011, December 2012 and February 2013.

⁹² Exhibit PwC-059, paragraphs 76 and 78.

⁹³ Further details of the specific payments noted here are set out in Appendix 3.7 of this report.

⁹⁴ Exhibit PwC-041.

⁹⁵ Appendix 3.7.

⁹⁶ Appendix 3.7.

- b. USD 21,000 payment from Terra Raf on 8 July 2005 to “*Umm Al-Jawary Oil Services Co. Ltd*” with the description containing “*ON BEHALF OF MR. LEANCA IURIE (ASCOM GROUP SA) FOR DATA ROOM*”; and
- c. USD 31,568 payment from Bert Management to an account of Mr Leanca’s name with “*payment for transport*” being in the description.

3.66 In addition to the above payments, I also identified a total of USD 383,164 being paid from Hayden to “*Aida Leanca*” between 27 December 2010 and 13 May 2014. It is my understanding that Aida Leanca is the wife of Iurie Leanca.⁹⁷ I note the descriptions for these payments included such terms as “*payment as per request*”, “*financial aid*” and “*consulting services*”.⁹⁸

3.67 Hayden also made a further payment of USD 50,000 on 25 April 2013 to “*Marius Leanca*” and another payment on 21 August 2012 of USD 3,947 to Cambridge Arts & Sciences Ltd with “*Tristan Leanca; deposit and registration fee*” contained in the description.⁹⁹ I understand that Marius and Tristan Leanca are the sons of Iurie Leanca.¹⁰⁰

*Matombe Masanga Adelard*¹⁰¹

3.68 On 30 January 2008, Hayden made a payment of USD 20,000 to Matombe Masanga Adelard (“**Mr Adelard**”) with “*Pmt. as request; reprezentatives [sic]*” being in the description.¹⁰² I understand Mr Adelard to be a government official of Democratic Republic of the Congo.¹⁰³

*Olowa Lungudi*¹⁰⁴

3.69 On 6 August 2008 Hayden made a payment of USD 100,000 to Olowa Lungudi (“**Mr Lungudi**”) with “*Pmt. as per Contract No 1; for consulting and marketing fee*” in the description.¹⁰⁵ I understand that Mr Lungudi is a politician in Democratic Republic of Congo.¹⁰⁶

⁹⁷ Exhibit PwC-041.

⁹⁸ Rietumu Bank statements of Hayden, Exhibit PwC-023.

⁹⁹ Rietumu Bank statements of Hayden, Exhibit PwC-023.

¹⁰⁰ Exhibit PwC-041 and Appendix 3.7, reference details for payments made from Terra Raf and Ascom Group Limited on behalf of Mr Leanca dated 2 and 4 September 2003.

¹⁰¹ Further details of the specific payments noted here are set out in Appendix 3.7 of this report.

¹⁰² Appendix 3.7.

¹⁰³ Publication of Georgia State University, Andrew Young School of Policy Studies, “Dean’s E-News”- “International Studies Program Hosts French Course in Fiscal Decentralization and Local Governance”. Exhibit PwC-060.

¹⁰⁴ Further details of the specific payments noted here are set out in Appendix 3.7 of this report.

¹⁰⁵ Appendix 3.7.

¹⁰⁶ “Le Journal Officiel de la République Démocratique du Congo” published by the Office of the President of the Democratic Republic of the Congo, no. 24, dated 15 December 2012, page 252 and the list of Senators elected on 19 January 2007, published by the Independent National Electoral Commission. Exhibits PwC-061 and PwC-062.

*Costello Garang Ring Lual*¹⁰⁷

- 3.70 Between December 2011 and January 2014, Hayden made five payments totalling USD 600,000 to Costello Garang Ring Lual.¹⁰⁸ I understand that this individual was a politician in South Sudan during this period.¹⁰⁹

Miss Yekaterina Lyazzatova

- 3.71 I have also identified a total of USD 1.254 million of payments which include the names “MISS YEKATERINA LYAZATOVA” and “MISS YEKATERINA LYAZZATOVA” in the payment descriptions. These payments were made from the Getter and Hayden bank accounts over the period 7 February 2007 to 16 June 2008.¹¹⁰ The payment descriptions for these transactions also include descriptions such as “Pmt for scholarship”, “Pmt for education fee” and “Pmt as per request; for scholarship”. Based on an additional search, it appears that Miss Yekaterina Lyazzatova is a daughter of Lyazzat Kiinov, the former Vice- Minister of Energy and Mineral Resources in Kazakhstan in 2003 - 2010 and Vice-Minister of Oil and Gas in 2010-2011 (i.e. potentially considered as a Politically Exposed Person).¹¹¹ Not only are these payments also relevant to this specific red flag, but the size and frequency of these transactions, as well as their apparent nature (i.e. relating to education fees / scholarship), would also raise concerns under the “Transactions” red flag that I have discussed above.
- 3.72 The examples set out above highlight a number of transactions with potentially Politically Exposed Persons and also provide further examples of transactions with individuals located in higher risk geographies. Whilst the scope of my work has not included any further investigation into these specific transactions, I note that they are transactions which result in an increased risk of money laundering under this ‘red flag’.

¹⁰⁷ Further details of the specific payments noted here are set out in Appendix 3.7 of this report.

¹⁰⁸ Appendix 3.7.

¹⁰⁹ Publication on the news website The Standardmedia.co.ke, “Uncertainty over Lamu port as S. Sudan begins railway project” dated 12 October 2010 and publication on the website of the New Sudan Foundation, “About us” section. Exhibits PwC-063 and PwC-064.

¹¹⁰ Further details of the specific payments noted here are set out in Appendix 3.7 of this report.

¹¹¹ Exhibit PwC-046.

Conclusion

- 3.73 As detailed above, my analysis has identified a number of transactions by the Stati Parties which display characteristics that are relevant to the risk set out under the red flags of money laundering detailed in this report. In particular, I have identified an effective 'ring' of related parties (some of which the Stati Parties failed to identify as related parties to professional advisors such as their auditors, KPMG) established by the Stati Parties around TNG and KPM. Under this structure, it appears that significant third-party funds from finances raised and oil and gas sales were diverted from KPM and TNG, through related parties and on to other related parties. Further, it appears that this related party structure was also used to inflate costs of equipment and plant purchased from third parties, by related parties, and then sold on to TNG.
- 3.74 My analysis has also identified the use of the related party structure that was established by the Stati Parties to result in the transfer of funds to a range of other territories and to pay for significant apparent personal expenditure and costs of members of the Stati family. Within the accounting ledgers of TNG and KPM themselves, I have been able to identify a range of unusual accounting transactions, including inconsistencies between recorded and actual payees of monies. Each of the above examples display characteristics which fall under the red flags of money laundering that I have identified in this report.

4. *Expert's Declaration*

- 4.1 I understand that my overriding duty is to assist the court in matters within my expertise, and that this duty overrides any obligation to those instructing me or their clients. I confirm that I have complied with that duty and will continue to do so.
- 4.2 Except as disclosed in this report I have no conflict of interest of any kind.
- 4.3 I have included in my report those matters, of which I have knowledge or of which I have been made aware, that might adversely affect the validity of my opinion.
- 4.4 I have indicated the sources of all information I have used.
- 4.5 I have not without forming an independent view included or excluded anything which has been suggested to me by others (including my instructing lawyers).
- 4.6 I will notify those instructing me immediately and confirm in writing if for any reason my existing report requires correction or qualification.
- 4.7 I understand that:
- a. my report, subject to any corrections before swearing as to its correctness, will form the evidence to be given under oath or affirmation; and
 - b. I may be cross-examined on my report.
- 4.8 I confirm that I have not entered into any arrangement where the amount or payment of my fees is in any way dependent on the outcome of the case.
- 4.9 I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

Signature.....

Date 29 July 2020

