

AMENDED EXPERT REPORT OF MORTEN TORKILDSEN

I. Personal Background

6. My name is Morten Torkildsen. I was born in Norway on June 4, 1965 and I am a Norwegian citizen. I have a Bachelor of Science degree in Management Sciences and a Master of Science degree in Shipping, Trade and Finance. I have thirteen years of experience in auditing and fraud investigations. My experience with forensic financial investigations has provided me with the requisite expertise to conduct the task described below in part B of this report. I have been able to successfully locate, identify and extract relevant information in the form of financial documentation, witness statements and other records. Based on a careful review and analysis of this information I have been able to reach the conclusions contained in this report.

7. From January 2001 to the present, I have been an investigator with the Office of the Prosecutor (hereinafter the "OTP") at the International Criminal Tribunal for the Former Yugoslavia (hereinafter the "ICTY"). Attached hereto as "Attachment A" is my curriculum vitae.

II. Question Presented

8. The OTP asked me to:

- A:
- (i) review and analyse the documents collected by the Office of the Prosecutor that relate to the financing of the Republic of Serbia Ministry of the Interior (hereinafter the "MUP") and the army of the Federal Republic of Yugoslavia (hereinafter the "VJ"); and
 - (ii) based on this review and analysis, provide a description of the financial structure(s), (if any), illustrated by these documents that was used to finance and supply the military and police units from the VJ and MUP that operated in Kosovo between 1 January and 20 June 1999.

- B. (i) review and forensically analyse (and if necessary reconstruct) the financial and company documentation related to this financial structure(s) provided by banks located in Austria, Bulgaria, Cyprus, Greece and Switzerland; and
- (ii) provide an expert opinion on whether the financial transactions evidenced from the banking documentation corroborates the existence of the aforementioned financial structure(s).

III. Glossary of Terms:

- a. Republic of Serbia Ministry of Interior ("MUP"): Ministarstvo unutrašnjih poslova Repbulike Srbije
- b. State Security Branch of the MUP ("RDB" or "SDB"): Resor državne bezbednosti
- c. Special Operations Unit ("JSO") of the RDB: Jednice specijalne operacije
- d. Army of Yugoslavia ("VJ"): Vojska Jugoslavije
- e. Federal Republic of Yugoslavia ("FRY"): Saveza Republika Jugoslavije
- f. Federal Customs Administration ("SUC"): Saveza Uprava Carine
- g. National Bank of Yugoslavia ("NBY"): Narodna banka Jugoslavije
- h. Socialist Party of Serbia ("SPS"): Socijalistička Partija Srbije
- i. Beogradska Banka ("Beogradska Banka d.d."): A major Yugoslav Bank
- j. BB COBU ("Beogradska Banka Cyprus Offshore Banking Unit")
- k. Beobanka ("Beobanka Bank d.d."): A Yugoslav Bank and subsidiary of Beogradska Banka

IV. Summary of the Report

9. A financial structure was designed, implemented and maintained to provide funding, equipment and supplies for, inter alia, the army of the FRY (hereinafter the "VJ") and the Republic of Serbia Ministry of the Interior (hereinafter the "MUP") from 1994 through 2000. In addition, these records indicate that Slobodan Milošević, Nikola Šainović, Milan Milutinović, Mihajl Kertes and others participated in the creation, implementation and/or operation of this financial structure.

5. The source of funds for the scheme was the Federal Customs Administration or the "SUC". Between 1994 - 2000, the SUC had the ability to acquire large amounts of both foreign and domestic currency. Mr Slobodan Milošević, in his capacity as President of the Republic of Serbia and later as the President of the FRY, ordered that funds from the Federal Customs Administration be diverted to finance the activities of various federal and Republic of Serbia institutions. The Director of the Federal Customs Administration (who from 1994 - 2000 was Mihalj Kertes) provided the large sums of cash directly to the Federal and Republic of Serbia entities. In addition, large sums of cash were transferred from the Federal Customs Administration to Yugoslav banks (such as "Beobanka") and to foreign banks, including banks in Cyprus and Greece. "Front companies"¹ were created and these companies then opened bank accounts with banks located in Cyprus and Greece. The bank accounts of these "front companies" were managed by employees from BB COBU who organized the deposit of funds into the "front companies" bank accounts and then arranged the transfer of funds to various third parties, including the suppliers of weapons, equipment and other materials used by the VJ and the forces of the MUP.

6. The financial structure created had two parts: a domestic part to serve the internal funding needs of crucial FRY and Republic of Serbia institutions, including the VJ and MUP, and an international part, operated by BB COBU and based in Nicosia, Cyprus, that was used to provide funding for the import of goods, including goods for the VJ and MUP. The necessity to create the international part of the financial structure and to locate its organization and operation in Cyprus grew from the international economic sanctions that were in place against the FRY during certain periods between 1991 and 2001. These sanctions severely limited the ability of the FRY and the Republic of Serbia to purchase arms and military supplies through traditional methods, such as direct purchase by the FRY military institutions from arms

¹ For the purpose of this report, a "front company" is an enterprise whose primary function is to receive, hold and transfer funds in its name but on behalf of other entities, and does not produce goods or services.

manufacturers.² In a written statement attached to this report, Slobodan Milošević stated that it was necessary for these expenditures to be treated as a “state secret” that needed to be concealed, and therefore could not be included in the annual budget of the FRY or the Republic of Serbia.³

7. Based on my review and analysis of the banking documentation provided by officials from Austria, Cyprus, Bulgaria, Greece and Switzerland, it is my opinion that these documents corroborate the international aspects of the financial structure described above. The banking documents disclose that 8 “front companies” operated bank accounts in Cyprus and Greece. These accounts were held with the Cyprus Popular Bank Ltd. and the European Popular Bank Ltd. respectively, and were managed by representatives of BB COBU. During the relevant period, large deposits of cash were made into these accounts and this cash was then deposited into the bank accounts of other entities. Five of these other entities that received cash into their bank accounts were Neocom Trading Ltd., Nitrako Inc., Microtri Handels Ltd., Aviatrend Ltd. and Abridge Trading Ltd. These five enterprises were identified by BB COBU officials as being suppliers of the MUP and VJ and in the case of Abridge Trading Ltd., this fact was confirmed by the owner of this company. The banking documents relating to the transactions with Neocom Trading Ltd. indicate that the transactions relate to the purchases of helicopters or helicopter parts. The purchase of helicopters and helicopter parts is corroborated by several of the witness statements that I reviewed. The banking documents relating to the transactions with Abridge Trading Ltd. suggest that the transactions relate to the purchase of military equipment.

V. Review of Records

8. A description of all the documents that were supplied by the Office of the Prosecutor and that I have relied on in writing this report are listed in the indexes to the attachments to the report. The documents that I have relied on

² Attached hereto as "Attachment B" to this report are reports obtained from the internet concerning these international economic sanctions imposed against the FRY.

³ See R4, discussed below.

in Part A are marked as R1 to R13 and are attached to this report. The documents that I have relied on in Part B are also attached.

VI. Report

Part A: A description of the financial structure that was used, inter alia, to finance and supply the VJ units and MUP forces that operated in Kosovo between 1 January and 20 June 1999

Introduction

9. The documents I have reviewed reveal the existence of an intricate financial structure that was used, inter alia, to finance the MUP and VJ from 1994 until 2000. The scheme was devised by several politicians and senior public officials in Serbia and the FRY including Slobodan Milošević, Mihalj Kertes, Nikola Šainović, Milan Milutinović, Borka Vučić and Jovan Zebić. The source of funds for the financial structure was the Federal Customs Administration. At its inception and throughout the life of the structure, Slobodan Milošević, in his capacity as President of the Republic of Serbia and later as the President of the FRY, ordered that funds from the Federal Customs Administration be diverted to finance the activities of various federal and Republic of Serbia institutions.

Planning the Financial Structure: Control Over the Federal Customs Administration

10. The Federal Customs Administration was in a unique position in the FRY as it was the only institution that could easily collect foreign and domestic currency.

R1. Interview Notes with Professor Vuk Ognjanović

11. Professor Vuk Ognjanović was the Federal Minister of Finance in the FRY (July 1993 - March 1994). He confirms that the Federal Customs

Administration was the main supplier of foreign currency both to the federal government and the government of the Republic of Serbia, and as such, Slobodan Milošević installed a loyal supporter, Mihalj Kertes, to run the SUC:⁴

“After my resignation as Governor of the NBY, I still had the support of the Montenegrin members of the Federal Parliament and was appointed as Minister of Finance of the FRY in July 1993. I held this position for approximately 12 months, until I was dismissed by the Prime Minister of the FRY following disagreements over a number of financial and economic reforms that I had proposed. Jovan Zebić, a senior official of the SPS party, first took over as the Minister of Finance and subsequently Tomica Racević, who is also a senior SPS official, was appointed as the Minister of Finance. During the period that I was the Minister of Finance, the Federal Department of Customs were under the control of the Federal Ministry of Finance. Following my departure, the Federal Customs Department was separated from the Federal Ministry of Finance and Mihalj Kertes was appointed as the Director of Customs. From my involvement in FRY politics, I am able to state that Zebić, Raicević and Kertes were all very loyal members of the SPS and were very obedient to Milošević.

The Federal Customs Department was a very important part of the Ministry of Finance. Through customs duties collected it provided more than one third of all the income of the Federal budget and was the Federal budget's main source of foreign currency. From the time that I left the Ministry of Finance until Milošević lost the election in October 2000, no complete records were kept of where the money collected from the Federal Customs Department went, only Kertes or Mr. Pesić, who was then the Minister of Finance and responsible for the Federal Department of Customs activities, would know this information. The fact that it was an important source of funds, and foreign currency in particular, is why it was important for Milošević to have loyal SPS members as the Director of the Federal Customs and the related other related areas in the Finance Ministry. Milošević could then effectively control the customs revenue for his own purposes”.⁵

Mihalj Kertes' Description of the Use of the Funds of the Federal Customs

Administration

R2 Excerpts of Transcript of Interview with Mihalj Kertes and Statements Made by Mihalj Kertes

⁴ In October and December 2001, OTP investigators interviewed Mr. Vuk Ognjanović. The notes of these meetings (attached hereto as "R1") were read back to Mr. Ognjanović on 24 January 2002. During this read back, Mr. Ognjanović made several corrections and then accepted these notes as an accurate record of the statements he had made.

⁵ R1, p.1.

12. Mihalj Kertes was the Director of the Federal Customs Administration from 4th May 1994 to 6th October 2000, including the period of time when the FRY was subject to international economic sanctions. The material provided to me by the OTP includes three written statements Mr. Kertes provided to the MUP, a record of questioning of Mr. Kertes by a Belgrade investigating judge and the transcript of a suspect record of interview conducted by investigators from the OTP.⁶

13. Mr. Kertes is in a unique position to confirm specific financial transactions as well as the overall financial structure that he helped to create and operate. In his statements, Mr. Kertes explains how the financial structure was constructed and the initiative and involvement of Slobodan Milošević in this process. Mr. Kertes' statements also demonstrate the identities and roles of other high level government officials in the creation and operation of this financial process, such as Jovan Zebić, Nikola Šainović, Milan Milutinović, Jovica Stanišić and Radomir Marković (the last two persons were heads of the State Security Branch of the Republic of Serbia Ministry of the Interior (hereinafter the "RDB") from 1991-98 and 1998-2001 respectively) to whom Mr. Kertes handed over funds. He also dealt frequently with Ms. Borka Vučić, who facilitated the transfer of foreign currency from the FRY to Cyprus.

⁶ On 17, 18, 19 and 20 January 2002, OTP investigators interviewed Mihalj Kertes. Excerpts of the transcript of this interview are attached hereto as R2(a). During this interview, three statements that had previously been provided to the OTP by officials from the Republic of Serbia Ministry of Interior (hereinafter the "MUP") were shown to Mr. Kertes. These statements related to a domestic criminal prosecution against Mr. Kertes in the Republic of Serbia. Statement 1, made on 12 December 2000, has OTP evidence reference number 02051595 to 02051602 and 0300-4426-0300-4430. Statement 2, made on 15 March 2001, has OTP evidence reference number 02051175 to 02051180 and 0300-4497-0300-4501. Statement 3, made on 19 March 2001, has OTP evidence reference number 02051181 to 02051186 and 0300-4460-0300-4464. In addition, during the same interview, Mr. Kertes informed the representatives of the OTP of the existence of an additional, fourth record: an interview that Mr. Kertes provided to a Belgrade Investigative Judge on 3 April 2001. Mr. Kertes described this interview as the most complete and accurate version of the circumstances concerning the transfer of funds from the Federal Customs Administration of the FRY. The OTP has obtained a copy of this fourth record, which has OTP evidence reference number 03036326 to 03036341 (English). Copies of these statements are attached hereto as R2(b), R2(c), R2(d) and R2(e), respectively. During the interview, Mr. Kertes stated that R2(b), R2(c), R2(d) and R2(e) are statements that he made voluntarily and that the information contained in these statements is correct.

14. Mr. Kertes' statements reveal that under the general direction of Slobodan Milošević, Federal Customs Administration funds were used to finance workers' salaries, the purchase of equipment for the Serbian MUP and Yugoslav Army, the production of weapons, elections and in the second half of 1998, weekly payments to the RDB for salaries, vehicles and the RDB's Special Operations Unit. On three occasions, Mr. Kertes gave money directly to Milan Milutinović, President of Serbia, and also provided funds to Nikola Šainović, Deputy Prime Minister of the FRY, and others. Slobodan Milošević was often personally involved in the above processes by initiating transfers of funds, personally ordering Mr. Kertes to effect transfers and directing Mr. Kertes to hand over money to whomever requested it. Mr. Kertes was also involved in the creation and maintenance of the international part of this financial structure and on at least one occasion in December 1998, he personally escorted cash to Cyprus where it was deposited in a bank.

R2(b)

15. In statement R2(b), Mr. Kertes says, inter alia:

The state of Yugoslavia, at the time when I was appointed to the position of Director /of the SUC/ [Federal Customs Administration], was under international sanctions. The blocked funds were increased when I came on board, but not enough for the state and the people to survive /as printed/.

A decision was made to earmark certain funds from the Customs /income/ for salaries of the country's workers. Specifically, for minimum wage workers.

In 1994/95, 96 and 97, and especially in the first two years, this was transacted through *Beobanka*, /?BeoAgency/ and BeoInsurance. 407,275,668.51 dinars in total.....

In this period, we financed the Serbian MUP /Ministry of the Interior/, the Army of Yugoslavia. We purchased and /illegible/ equipment for both these institutions.

The cash was transported from the customs offices by courier to the ERC /Electronic Computing Centre/. And the disbursements, with receipts, were made by me on orders from the highest place in the state. Again, for the financing of all state institutions, /illegible/ social and health institutions and for other functions of the state.⁷

⁷ R2(b), pp. 1-2.

R2(c)

16. In statement R2(c), Mr. Kertes, says, inter alia:

“When I became Director of the Federal Customs Administration on 4 May 1994, the economic and other sanctions against our country had been in place for two years. Immediately after I came to this post, it was agreed that part of the collected customs and other duties should be redirected from the Federal Customs Administration to the *Beogradska Banka* bank for interventions in enterprises to pay salaries.

“This agreement was implemented after some time after my appointment in the following way. At one of the regular meetings with President Slobodan MILOŠEVIĆ, which was attended, besides me, by Jovan ZEBIĆ, then Federal Deputy Prime Minister and Minister of Finance, Nikola ŠAINOVIĆ, also a Deputy Prime Minister, and possibly somebody else, but I cannot remember who, it was agreed that part of the customs duties collected would be directed to *Beogradska Banka* for intervening in the payment of salaries for state-owned enterprises and state institutions. As far as I remember, this did not refer to the collection of customs duties in cash, but only to setting aside part of the customs duties outside the Federal budget and redirecting it to Republic of Serbia. I do not remember who gave the initiative for this solution or whether it was me. There was no discussion of what amount would be redirected and it was agreed that this should be determined according to the current needs in Serbia. No document was made about this agreement – this was the practice in the case of such agreements.

“At a similar meeting devoted to this subject with President S. MILOŠEVIĆ in mid-1995, when our sanctions against Republika Srpska were already in force, which was attended besides me by Jovan ZEBIĆ and, I think, nobody else, we agreed that part of the customs duties should be collected in cash, both dinars and foreign currency, as the needs of the State were enormous. President MILOŠEVIĆ pointed out that we had large daily financial expenses, that the relationship with the Republic of Montenegro had started souring, that is, becoming complicated, and that in the financial sphere we had to secure funds for regular and extraordinary needs.

“Further, as Director of Customs, I was obliged to finance weapons production in *Crvena Zastava Kragujevac*, *Sloboda Užice*, *Krušik Valjevo*, *Lučane* and *Prvi Partizan Užice*. Momčilo PERIŠIĆ, at the time a general and Chief of the General Staff, can testify to this. It was at least 100 million dinars per contract. We also gave cash for salaries in at least an equal amount.

“The weapons factories received money from the Customs through their accounts and partly in cash. There are contracts with these factories about it, regulating production of their goods. The obligation of Customs according to these contracts was only to pay. These

contracts between the enterprises, Customs and the Army of Yugoslavia were signed by then Chief of Staff Momčilo PERIŠIĆ.

“Both above-mentioned meetings with President MILOŠEVIĆ in 1994 and 1995 were held on the President’s official premises – at the time he was the President of the Republic of Serbia – on the Presidency premises in Andrićev Venac Street.

“The agreement on ammunition production was organised by the President’s order in Užička Street in Belgrade, in a building owned by the MUP /Ministry of the Interior/. The meeting was attended by the directors of all the mentioned enterprises and representatives of the Army and State Security. A contract was signed then and Customs had the obligation of paying for the manufactured and delivered goods every three months. Customs also took part in renewing the Lučani /factory/, which had burned down, but I do not know the sum.....

“As for the collection of foreign currency funds necessary for the survival of the State and the work of its organs, as well as for the acquisition of necessary equipment for the MUP of Serbia and the Army of Yugoslavia: these were the two key services which Customs financed so that they could survive, especially regarding investments. I repeat, all this happened during the embargo.

The Federal Customs Administration, as an organ of State, also covered part of the cost for all elections held during these six and half years. I remember that at the order of the highest State leadership, FRY/Federal Republic of Yugoslavia/President S. Milošević, I gave high-ranking party and State officials certain sums of money in cash, as follows:

....

Also at the order of President Slobodan Milošević I took certain sums of foreign currency and dinars to Milan MILUTINOVIĆ, at his office, when he was the Minister of Foreign Affairs, when he was the President of the Republic of Serbia and chairman of the Organisational Committee for the celebration of the 800th anniversary of Chilandary.

I cannot remember how much foreign currency and dinars I gave, but this happened several times. I gave money on this basis in 1998, 1999 and 2000. I do not know how much was given on these three bases, but it is certain that it amounts to several million dinars and several million marks. How much was spent, what on and how, was not for me to know. But I fulfilled all requests. I gave money for all three purposes directly to President MILUTINOVIĆ, occasionally in the presence of my then head of security, Milan RAŠETA, an SDB/State Security Service/ employee, who carried the money.

“Every payment I made at Customs was accompanied by a receipt signed by me on one side and the recipient of the money on the other. The receipts were usually typed by my assistant, Mladen STJELJA, who was at the physical location of the money in the ERC....

“According to the records kept by STJELJA, the user of the foreign currency was most often the MUP of the Republic of Serbia, the State Security Service. I talked to the Chief of the State Security Service before all such payments, which are entered in these records, that is, President Slobodan MILOŠEVIĆ ordered me that every time that Rade MARKOVIĆ [the former chief of the State Security Service] called, funds were to be secured for him in the amount he asked for. In accordance with this order by President S. MILOŠEVIĆ, I always gave as much money as MARKOVIĆ asked for to the person whom he sent over. At first, it was Raša KANDIĆ who usually came on this business, later it was Marjan ZOVIĆ. I never asked what the money was being spent on and how.

“I do not know whether Minister Vljako STOJILJKOVIĆ was informed about this relationship with the State Security Service, because STOJILJKOVIĆ and I did not talk.....

“While I was Director, I also set aside funds in cash and personally took them, on several occasions, to the Serbian MUP for payment of salaries and per diems. I did the same for the Army of Yugoslavia. Further, I forwarded money for pension payments to the Pension Fund and in cash, via *Beobanka*. The last payment of a large amount for the Army of Yugoslavia amounted to about 100,000,000 dinars which I procured and forwarded urgently to be paid to reserve soldiers returning from Kosovo and Metohija. The Federal Customs Administration bore the brunt of equipment purchases for the Serbian MUP and, partly, for the Army of Yugoslavia. Petrol and derivatives, including kerosene, were also bought. The Federal Customs Administration bore all the costs. About 2,000 vehicles were procured for organs of State and given for their use. When any kind of help was needed, it was provided by Customs. Most State institutions profited from Customs, especially regarding equipment and salaries. The SUC also assisted individuals – seriously ill persons for whom we paid for drugs, prosthetic devices and organ transplants – and outpatients’ clinics and hospitals, which received hundreds of ambulance vehicles and several hundred tonnes of drugs, medical supplies and food.⁸

R2(d)

17. In statement R2(d), Mr. Kertes described how the Federal Customs Administration issued various goods, such as automobiles, television sets, VCRs and computers to individuals and institutions.⁹ He also described the distribution of several hundred thousand German Marks pursuant to the orders of Slobodan Milošević.¹⁰

⁸ R2(c), pp. 1-9.

⁹ R2(d), pp. 1-8.

¹⁰ *Ibid*, at p. 9.

R2(e)

18. In R2(e), the record of Mr. Kertes' interview with a Belgrade Investigative Judge, Mr. Kertes described how in the middle of 1994, when he was an employee of the federal government of the FRY, Slobodan Milošević, then the President of the Republic of Serbia, ordered Mr. Kertes to set aside a portion of the daily income from the Federal Customs Administration to pay for the needs of state enterprises of the Republic of Serbia.¹¹ In April or May 1995, Slobodan Milošević ordered Mr. Kertes to create a cash fund from the proceeds of the Federal Customs Administration in order to "purchase various basic resources for the needs of the MUP of Serbia and the Yugoslav Army".¹² In June 1996, Slobodan Milošević ordered Mr. Kertes to provide funds to senior state officials each time that a senior state official requested financial assistance.¹³ For example, on one occasion in 1996, Mr. Kertes handed over DM 900,000 to Deputy FRY Prime Minister Nikola Šainović.¹⁴
19. During the second half of 1998, Slobodan Milošević directed Mr. Kertes to provide funds for the needs of the RDB.¹⁵ Accordingly, Mr. Kertes provided the RDB with funds from the Federal Customs Administration approximately on a weekly basis.¹⁶ On several occasions between 1995 and 1999, when international economic sanctions were imposed against the FRY, cash funds were removed from the FRY without the approval of the National Bank of Yugoslavia (hereinafter the "NBY").¹⁷ This cash originated from the Federal Customs Administration and was used solely for the purchase of equipment for the MUP.¹⁸ According to Mr. Kertes, Slobodan Milošević ordered him to hand over the money "to whoever came to pick it up."¹⁹ Mr. Kertes described how on one occasion he personally carried the cash funds to Cyprus and

¹¹ R2(e), pp. 3 - 4. Present on this occasion, apart from Mr. Kertes and Mr. Milošević, were Nikola Šainović, Deputy Prime Minister of the FRY, and Jovan Zebić, Deputy Prime Minister of the FRY.

¹² *Ibid*, at p. 5. Also present on this occasion were Deputy Prime Ministers Nikola Šainović and Jovan Zebić.

¹³ *Ibid*, at p. 11.

¹⁴ R2(e) at p. 10. On this occasion, Slobodan Milošević called Mr. Kertes and ordered him to provide 900,000 German Marks to Mr. Šainović. On subsequent occasions, Mr. Kertes gave Mr. Šainović DM 150,000 and DM 100,000, following Slobodan Milošević's instructions to provide Mr. Šainović with funds whenever Mr. Šainović came and asked for it. *Ibid*, at p. 11.

¹⁵ As stated above, the RDB is also sometimes referred to as the "SDB".

¹⁶ R2(e), at pp. 7 - 8.

¹⁷ R12

¹⁸ R2(e), at p. 13.

deposited the money in a Cyprus bank. Mr. Kertes explained that he wanted to see Ms. Borka Vučić in Cyprus and her husband, who was a close friend of Mr. Kertes.²⁰ The role of Ms. Borka Vučić in the creation and operation of this financial structure will be described below.

20. Mr. Kertes described how he received a telephone call from Slobodan Milošević on 4 October 2000. Slobodan Milošević directed Mr. Kertes to provide two million German Marks for Mr. Uros Šuvaković, who was then a senior police official.²¹ In order to raise this amount of foreign currency, Mr. Kertes contacted Ms. Borka Vučić and asked Ms. Vučić to send him one million German Marks in exchange for 41 million dinars. On that same day, Mr. Uros Šuvaković came to Mr. Kertes' office and collected the money. Mr. Kertes conceded that these funds might have been contained in bags, although such funds were usually wrapped in "packing paper."²²

R2(a)

21. During the interview with Mr. Kertes (R2(a)) referred to in footnote 6, Mr. Kertes confirmed that during his tenure as Director of the Federal Customs Administration, at meetings attended by Mr. Kertes, Slobodan Milošević, Nikola Šainović and Jovan Zebić (then FRY Minister of Finance), a decision was made to divert customs revenue to fund the institutions of the Republic of Serbia.²³ Mr. Kertes explained that international economic sanctions were in force against the FRY at the time and the FRY economy was functioning poorly. Mr. Kertes was instructed to open an account at BeoBanka Bank in Belgrade. Mr. Kertes then transferred "surplus" revenue (in cash) from the Federal Customs Administration into this account, and the funds were used to supply the salaries of a number of institutions, including the MUP and the VJ.²⁴ Sometimes representatives of the Federal Customs Administration took the cash directly to the beneficiaries.²⁵ On occasion, Mr. Kertes informed

¹⁹ *Ibid.*

²⁰ *Ibid.*

²¹ *Ibid.*, at p. 12.

²² *Ibid.*

²³ R2(a), Transcript of Interview (V000-3792), 20 January 2002, p. 48; V000-3792, 20 January 2002, 13:35 - 13:36, and 14:58.

²⁴ *Ibid.*, pp. 49 and 61 of transcript and at 13:37 - 13:42 and 14:39 of video.

²⁵ *Ibid.*, at p. 61 of transcript and 14:43 of video.

Slobodan Milošević by telephone "about who had requested money, who had received money, and which amounts."²⁶ In addition, at times "goods were exchanged for goods" in order to compensate suppliers of government institutions, or the Federal Customs Administration would directly compensate government suppliers. For example, on 30 April 1998, the Federal Customs Administration entered into an agreement to compensate suppliers of the VJ for oil derivatives, sanitary materials and food provided to the VJ.²⁷ The Federal Customs Administration provided funds and goods according to these processes "on a daily basis" until October 2000 when Mr. Kertes was forced out of his position.²⁸

22. Mr. Kertes confirmed that when Radomir Marković became the head of the RDB in 1998, Mr. Marković would inform Slobodan Milošević about financial needs of the RDB and Slobodan Milošević would call Mr. Kertes and instruct him to fulfil the request of Mr. Marković:

I was told by Slobodan Milošević, when Radomir Marković calls for official state needs if I had the funds, I should provide it to him. The Federal Customs Administration should ensure the funds for the MUP so that it could cover its material expenses.... He [Slobodan Milošević] told me, whenever they would call, I should give them the amount if we have that money.²⁹

23. Mr. Kertes specifically acknowledged that he, in his role as Director of the Federal Customs Administration, provided the salaries, vehicles and equipment that the Special Operations Unit (hereinafter the "JSO") of the RDB needed to operate.³⁰ Mr. Kertes explained that the members of the JSO were aware of the source of their funding and in recognition of Mr. Kertes' efforts, the JSO bestowed an award upon Mr. Kertes in 1997.³¹ Mr. Kertes recalled that Franko Simatović was present on that occasion and congratulated Mr. Kertes.³² Franko Simatović is named as a "participant or co-perpetrator" in the indictment against Slobodan Milošević pertaining to events in Croatia. Allegedly, Mr. Simatović, as head of the JSO of the RDB, "commanded,

²⁶ *Ibid*, at p. 64 of transcript and 14:53 of video.

²⁷ *Ibid*, at p. 53 of transcript and 13:56 of video.

²⁸ *Ibid*, at p. 52 of transcript and 13:55 of video.

²⁹ *Ibid*, at pp. 63 - 64 of transcript and 14:53 of video.

³⁰ *Ibid*, V000-3789, 19 January 2002, English Transcript, pp. 23-24.

³¹ *Ibid*, at pp. 1-5 and 37 of transcript.

³² *Ibid*, at pp. 1 - 2 of transcript.

directed, or otherwise exercised effective control" over agents of the RDB who perpetrated crimes specified in the indictment.³³

24. Mr. Kertes acknowledged to OTP investigators that on at least one occasion when he travelled to Cyprus, cash funds originating from the Federal Customs Administration were on the same plane and these funds were transferred to a Cyprus bank upon Mr. Kertes' arrival in Cyprus.³⁴ When asked why money was taken to Cyprus, Mr. Kertes responded: "Probably there, there was a passage to the world."³⁵
25. Mr. Kertes also stated that he knew both Vesna Simatović and Slobodan Rajh and Mr. Kertes knew that Vesna Simatović was Franko Simatović's wife.³⁶ The activities of both Vesna Simatović and Slobodan Rajh will be discussed further below. Mr. Kertes further said that he met Slobodan Rajh "a very long time ago" but that he had not seen Mr. Rajh for "two and a half to three years," i.e. since early or mid 1999.³⁷
26. In addition, Mr. Kertes described the close relationship that he had with Ms. Borka Vučić, whose activities are described in greater detail below. Mr. Kertes opined that Borka Vučić was one of the persons primarily responsible for the survival of the FRY as a state.³⁸ For a period of time, Ms. Vučić was at "the bank" while the bank director was Slobodan Milošević.³⁹ In Mr. Kertes' opinion, "whatever Milošević learned about the banking system, he learned from Borka Vučić."⁴⁰

³³ IT-01-5-I at paragraph 15.

³⁴ R2(a), V000-3790, English Transcript, 18 January 2002, Tape 1 of 2, pp. 65 - 66.

³⁵ *Ibid*, V000-3792, English Transcript, 20 January 2002, p. 62; V000-3792, 20 January 2002, Tape 1 of 2, at 14:46.

³⁶ *Ibid*, at pp. 71 - 72 of Transcript and 15:26 - 15:27 of video.

³⁷ *Ibid*, at p. 71 of Transcript and 15:26 of video.

³⁸ *Ibid*, at pp. 74 - 76 of transcript and 15:36 of video.

³⁹ Ms. Vučić was previously an Executive Vice President of the Udružena Beogradska Banks when Slobodan Milošević was the President of this bank. Udružena Beogradska Banka later merged with another Yugoslav bank to become Beogradska Banka a.d.

⁴⁰ R2(a), V000-3792, English Transcript, 20 January 2002, p. 75; V000-3792, 20 January 2002, Tape 2 of 2, at 15:37-15:38.

R3 Travel Records of Mihalj Kertes

27. The Office of the Prosecutor has obtained some of the travel records of Mihalj Kertes, and I have reviewed a copy of these records. These travel records disclose that Mr. Kertes has visited Cyprus on several occasions.⁴¹ These visits included trips to Cyprus on 8 October 1996 for approximately two days, 26 February 1998 for approximately three days, 21 September 1998 and on 27 December 1998 for less than twenty-four hours.⁴² On 27 December 1998, Mr.

⁴¹ **R3(a) Diplomatic Passport of Mihalj Kertes(z), ERN 02051314-02051329:**

R3(a)(i) ERN 02051323, Arrival Stamp, Immigration Control, Cyprus, 27 December 1998 and Departure Stamp, Immigration Control, Cyprus, 28 December 1998.

R3(a)(ii) ERN 0251322, Arrival Stamp, Immigration Control, Cyprus, 26 February 1998 and Departure Stamp, Immigration Control, Cyprus, 1 March 1998.

Arrival Stamp, Immigration Control, Cyprus, 8 October 1996 and Departure Stamp, Immigration Control, Cyprus, 10 October 1996.

⁴² **R3(b) Notes Verbales**

R3(b)(i) ERN 02051172, 25 December 1998, Note Verbale from Embassy of FRY in Cyprus to Ministry of Foreign Affairs, Republic of Cyprus, Protocol Division, Nicosia:

"The Embassy of the Federal Republic of Yugoslavia presents its compliments to the Ministry of Foreign Affairs of the Republic of Cyprus and has the honour to request the V.I.P. lounge at Larnaca Airport for Member of the Federal Government of Yugoslavia, Mr. Mihalj Kertes, arriving to the Larnaca Airport by special flight, on December 27 1998 at 13:25. The Federal Minister will be welcomed by H.E. the Ambassador of Yugoslavia, Ivan Mrkić.

The same facilities are requested for December 28, 1998 due to the departure of the Yugoslav Minister, at 0800."

.....

R3(b)(ii) ERN 02051168, 21 September 1998, Note Verbale from Embassy of FRY in Cyprus to Ministry of Foreign Affairs of the Republic of Cyprus, Protocol Division, Nicosia:

"The Embassy of the Federal Republic of Yugoslavia presents its compliments to the Ministry of Foreign Affairs of the Republic of Cyprus and has the honour to request for (sic) VIP Lounge at Larnaca Airport for H.E. the Ambassador Ivan Mrkić, who will welcome Mr. Mihalj KERTES, member of the Federal Government of Yugoslavia and director of the Customs, arriving by special flight from Belgrade on September 21, 1998, at 13:00."

.....

R3(b)(iii) ERN 02051169, 8 October 1996, Note Verbale from Embassy of FRY in Cyprus to Ministry of Foreign Affairs of the Republic of Cyprus, Nicosia:

"The Embassy of the Federal Republic of Yugoslavia presents its compliments to the Ministry of Foreign Affairs of the Republic of Cyprus and has the honour to request for (sic) the V.I.P. Lounge at the Larnaca Airport on October 8, 1996, at 21:00.

Miss Melina Krtnic, Second Secretary, will be at the Airport to welcome the Delegation headed by the General Director of Federal Customs Authorities Mr. Mihalj Kertes, who is coming on a short unofficial visit to Cyprus.

"Drakomir" Stojković, arriving on a private flight from Belgrade, declared to the Cypriot authorities that he had approximately 35 million DM in cash in his possession.⁴³ The declaration indicated that these funds were intended for deposit into the account of Browncourt Enterprises, Ltd., at the Cyprus Popular Bank.⁴⁴ On 28 December 1998 cash deposits of approximately 35 million DM was deposited into the DM account of Browncourt Enterprises Ltd. held with the Cyprus Popular Bank.⁴⁵ These travel records corroborate R2(a) and R2(e), in which Mr. Kertes stated that he travelled to Cyprus several times and on one occasion, he was aware that coincidentally a large amount of cash was being transported on the same flight to Cyprus by a representative of the FRY Federal Customs Administration. Mr. Kertes also stated that he recalled that on his arrival at Larnaka Airport, Cyprus he was met by officials from the Cyprus Popular Bank and the cash was handed over to these individuals.⁴⁶

R4 Statements by Slobodan Milošević in Relation to the Financial Structure

28. Slobodan Milošević acknowledged that "extra-budgetary" expenditures occurred during the period when he was President of the FRY and President of

Mr. Kertes is accompanied by Mr. Slobodan Grahovac, director, his wife, Mr. M. Sarac, director, Mr. Zoran Malković, executive director of Beogradska Banka and Mrs. Borka Vučić.

....

The same facilities are requested for October 9th, 1996, at 18.00."

- ⁴³ **R3© ERN F1026923, 27 December 1998, Customs Declaration by "Drakomir" Stojkovic, to Central Bank of Cyprus:**

"For Browncourt Enterprises Ltd. Account with Cyprus Popular Bank, Ltd.
I, 'Drakomir' Stojkovic, resident of Yugoslavia,

....

On arrival at Larnaca Airport in the Republic of Cyprus per Private Flight from Belgrade hereby declare that I have in my possession the following currency/bank notes and/or gold:
DFM 34838895000 - (Thirty four million, eight hundred thirty eight thousand and eight hundred ninety five D. Marks),

NOK 3,600.00 (Three thousand six hundred Norewegian Kroner),

PTE 2000.00 (Two Thousand Portugese Escudo),

SEL 6320.00 (Six Thousand Three Hundred and Twenty Swedish Kroner),

CHF 709200.00 (Seventy Thousand and nine hundred twenty Swiss Francs),

GP 580.00 (Five hundred Eighty Sterling Pds),

USD 149,142.00 (One hundred forty nine thousand and one hundred forty two US Dollars."

⁴⁴ *Ibid.*

⁴⁵ F1027035 and F1027033 (Deposit Vouchers), and F100 1007 (Bank Statement of Browncourt Enterprises Ltd.

the Republic of Serbia. These funds were used to support, inter alia, the security organs of the governments of the FRY and the Republic of Serbia.⁴⁷

29. On Sunday, 1 April 2001, Mr. Milošević was arrested on domestic charges and taken into custody by Officers from the Ministry of Interior of the Republic of Serbia. Mr. Milošević was charged with the offences of misuse of official position and organising to commit criminal acts under the Criminal Code of the Republic of Serbia and the Criminal Code of the Federal Republic of Yugoslavia. These charges relate, in part, to allegations that whilst serving in the capacity as the President of the Republic of Serbia to 17 May 1997 and subsequently serving in the capacity of the President of the Federal Republic of Yugoslavia ("FRY") until 5 October 2000, Mr. Milošević misused his official position to "obtain material and other benefits for himself, for a number of other persons and the Socialist party of Serbia and the President of the Federal Republic of Yugoslavia".⁴⁸

30. The charges included the following allegation:

"There is founded suspicion that the charged Slobodan Milošević, in his capacity as the President of the Republic of Serbia until 17 May 1997, and then as president of the FRY until 5 October 2000, committed the above-mentioned criminal acts with the intention of acquiring financial and other benefits for himself, for a certain circle of people, and for the then governing SPS (Socialist Party of Serbia), which he led, by keeping that political party in power".⁴⁹

31. On 1 April 2001 Slobodan Milošević was interviewed by the investigating judge of the District Court in Belgrade.⁵⁰ During this interview, Slobodan Milošević stated the following:

"I held the offices of President of the FR of Yugoslavia and the President of the Republic of Serbia at a time of severe sanctions against our country, at the time of a blockade on the Drina river and at a time of wars in which the Serbian population and the Serbian people

⁴⁶ R2(a), V000-3790, 18 January 2002, English Transcript, Tape 2 of 2, pp. 65-66.

⁴⁷ The OTP has received copies of two statements provided by Slobodan Milošević in a domestic criminal proceeding against him in the FRY. I have reviewed these statements (hereinafter referred to as "R4(b)" and "R4(c)").

⁴⁸ R4(a)

⁴⁹ *Ibid.*

⁵⁰ The MUP provided a transcript of this interview to the OTP. I have reviewed a copy of this transcript (attached hereto and hereinafter referred to as "R4(b)").

were threatened. Extra budgetary spending was limited exclusively to some specific forms of assistance to Serbs on the other side of the Drina. *The other extra budgetary expenditure funds, the majority of them, one could say, were used for the needs, for the various needs to strengthen and preserve the country's security.* Knowing the people who did this, who were patriots and professionals, I believe that these funds were appropriately used for the purposes mentioned.....I do not believe that there was another way to purchase this necessary equipment, because delivery of such equipment to our country was strictly banned.....For several years now, all the funds for the Federal budget came exclusively from the Republic of Serbia. (emphasis added)

32. On 2 April 2001 Slobodan Milošević also issued a three page signed statement to the Investigative Judge of the Regional Court in Belgrade appealing against the decision by that judge to detain him in custody.⁵¹ In this signed statement, Slobodan Milošević said, inter alia:

"Those "others" whose benefit was the sole object throughout this period are our state and people, the defence and security of our country, and our economy.....

The money invested through *Beogradska Banka* in the economy, in the most vulnerable social and economic points during the crisis, was neither stolen nor misappropriated, nor was this a secret to anyone. Help was provided for those who needed it most and this was my firm orientation and my directive. I was always against treating anyone as privileged.

As regards the resources spent for weapons, ammunition and other needs of the Army of Republika Srpska and the Republic of Serbian Krajina, these expenditures constituted a state secret and because of state interests could not be indicated in the Law on the Budget, which is a public document. *The same applies to the expenditures incurred by providing equipment, from a needle to an anchor, for the security forces and special anti-terrorist forces in particular, from light weapons and equipment to helicopters and other weapons which still remain where they are today,* and this was not made public because it was a state secret, as was everything else that was provided for the Army of Republika Srpska.... (emphasis added)

As to the exceptional amount of material gain quoted as a reason for custody, the question arises: for whom? For the Army of Republika Srpska, the security organs, the Army of the Republic of Serbian Krajina, to help the people across the Drina river, the textile and metal workers and others financed through *Beogradska Banka* in the most difficult social situation and during a total external blockade."

⁵¹ I have reviewed a copy of this statement (hereinafter referred to as "R4©" and bearing OTP evidence reference number 03016642-03016644 (English) and 02051718-02051720 (BCS)) which is attached hereto.

Corroboration of the Statements Made by Mihalj Kertes and Slobodan Milošević

33. I have examined additional material provided by the OTP to determine if this material corroborates the statements made by Mihalj Kertes and Slobodan Milošević concerning the financial structure.

R5 Excerpt of Statement of Jovan Zebić, Former Deputy Prime Minister of the FRY and Federal Minister of Finance

34. Former Deputy Prime Minister and Federal Finance Minister Jovan Zebić confirmed that Slobodan Milošević, as President of the Republic of Serbia, played a central role in the decision to use cash funds from the Federal Customs Administration to finance state institutions:⁵²

....

"Sometime in 1995 we had another meeting with President MILOŠEVIĆ as a part of on-going co-ordination. President MILOŠEVIĆ and myself were present on that occasion, I cannot remember if ŠAINOVIĆ or KONTIĆ were also there. It was agreed that a part of the customs taxes could be paid in cash. On that occasion President MILOŠEVIĆ explained that circumstances were hard and that it is not possible to ensure normal financing of the state bodies so it had to be done in that way. So he explained it all with the current situation, we did not make any comments and we agreed.

....

At the time the President of FRY was Zoran LILIĆ, MILOŠEVIĆ came only in 1997. All the above-mentioned consultations that we had until 1997 we had with the President of Serbia, Slobodan MILOŠEVIĆ. LILIĆ was almost always present on these occasions, he would preside the meeting but would not interfere. There consultations were held in the office of President MILOŠEVIĆ on Andrićev venac, and most frequently in Botićeva Street. Whenever I went to Botićeva street LILIĆ would be there."

R6 Excerpt of Record of Interview with Nikola Šainović, Former Deputy Prime Minister of the FRY

35. Nikola Šainović is the former Deputy Prime Minister of the FRY. In a statement provided during a criminal proceeding in the FRY,⁵³ Mr. Šainović described how on several occasions, in his capacity as vice-president of the

⁵² The OTP had received a copy of a statement made by Jovan Zebić on 29 March 2001. This statement bears ERN 0205-1187-0205-1189 and is attached hereto.

⁵³ The OTP has obtained a copy of this statement, dated 16 May 2001 and bearing ERN 03021631 - 03021637.

Socialist Party of Serbia (hereinafter the "SPS"), he received large amounts of money from Mihalj Kertes in Mr. Kertes' office at the Federal Customs Administration. Mr. Šainović's statement corroborates Mr. Kertes' description of how he distributed large sums of foreign currency, in cash, from the SUC building:

"Between March 1996 and sometime around March 1997 I was vice-president of the SPS/Socialist Party of Serbia/, and before and after this I was a member of the main board of the party. Every party, including the SPS, is financed by donors. The money is used for conducting party activities, particularly in an election year, as was the case in 1996. The money is spent on paying activists, organising rallies, transport to these rallies, printing material and everything else. Donors invested not only money, but various assets, services and work.

All of us in the SPS leadership contacted people who might be donors for the party, so I had contact with various people in this period, seeking money for financing the party without obligation of repayment. I consequently had contact with Mihalj KERTES on several occasions. He was also a member of the senior SPS leadership. On three occasions he gave me German marks as had been previously agreed.

It is correct that I took DM 900,000 from Mihalj KERTES on 7 June 1996. DM 150,000 on 30 November 1996 and DM 100,000 on 22 December 1996. On all three occasions I signed receipts for the money. My signature is on all the receipts of which there are photocopies in the case files. On all three occasions I took the money from KERTES in his office in the SUC in New Belgrade. The first time I had with me Dušan Matković, also a member of the SPS leadership.

KERTES gave me this money with no obligation for repayment, and I did not ask him even once where it had come from. I assumed that he had collected the money from various donors. It did not cross my mind that this was Customs money even though I took it in his office. I could not have known that and nor did I ask.

On all three occasions, I took the money in envelopes. There was no one present apart from those I have mentioned when I took the money.

On all three occasions I handed the money over to the Service dealing with finance in the SPS. As far as I know, the money was used for the purpose I have previously described."

....

R7 Excerpt from Interview with Jovica Stanišić

36. Jovica Stanišić was head of the RDB from 1991 until 27 October 1998, when he was replaced by Mr. Radomir Marković.⁵⁴ With respect to the funding of the RDB during this period, Mr. Stanišić confirmed that funds from the Federal Customs Administration financed the RDB:⁵⁵

"Bernard O'Donnell: When we were talking on Frid.. err on Thursday actually, there was a discussion of Mihajlo KERTES, and you said that some of the revenue from the federal custom service went directly to the Serbian Government?

Jovica Stanišić: Yes.

Bernard O'Donnell: And that the Serbian MUP was financed in this way?

Jovica Stanišić: Yes.

Bernard O'Donnell: Including the DB and the JB?

Jovica Stanišić: Yes.

.....

Bernard O'Donnell: Do you know how much of the funding of the DB came from the custom service as opposed to from any other regular budget?

Jovica Stanišić: I think this was quite a lot, this went on for two three years. The Government crisis was was was great crisis. But there is no answering to this, because he gave to everybody, to the government, to companies, to to hospitals, to to counts the hundreds of institutions. I know that this helped the Ministry a lot. He gave cars, we couldn't get cars otherwise we were under sanctions. He would -- if they would have a car of the borders -- err of the customs he would write a decision about this and hand it over to the Ministry. The same thing happened with the hospitals, and to the Army. These were hundreds and hundreds, thousands of cars. This was a huge help."

....

⁵⁴ Between 8 November 2001 and 13 November 2001, investigators from the OTP interviewed Mr. Jovica Stanišić. I have reviewed the transcript of this interview, portions of which are attached hereto as R7.

⁵⁵ R7, p. 171 - 172.

R8 Excerpts of Transcript of Interview with Radomir Marković and Statements Made by Radomir Marković

37. Radomir Marković was the head of the RDB from October 1998 to January 2001. Mr. Marković confirms the relationship between Mr. Kertes and Slobodan Milošević as well as the transfer of foreign currency funds from the Federal Customs Administration for the use of the RDB. Mr. Marković provided two statements to the MUP and participated in a suspect interview with OTP investigators.⁵⁶ In these statements and interview, Mr. Marković confirms: the personal involvement of Slobodan Milošević in procuring funds for the RDB; that he would inform Slobodan Milošević of the RDB's needs during "direct and regular work contacts"; and that Slobodan Milošević would then communicate directly with Mr. Kertes to meet these needs. Mr. Marković describes two occasions when Slobodan Milošević ordered that foreign currency reserves be procured which were then used to procure helicopter equipment and special vehicles for the RDB's Special Operations Unit.

X. In statement R8(b), Mr. Marković says, inter alia:

As far as I can recall, I only spoke to President Slobodan MILOŠEVIĆ on two occasions as chief of the SDB. The first time I told him that we needed to secure foreign currency reserves to provide the SDB with the equipment it needed – *guns for DB helicopters*. This was not to procure helicopters (they had been procured previously) but to provide equipment for the helicopters. This equipment was either worn out or we did not have it at all. I was present in President MILOŠEVIĆ's office when he telephoned Mihalj KERTES and told him to provide these foreign currency reserves. *This was sometime before the war in 1999. I know that the equipment needed by the service arrived before the war and that it was used as intended and installed on the DB helicopters.* (emphasis added)

I did not see this foreign currency, but as far as I know it went to a bank which transferred it to a bank account through which this

⁵⁶ On 17, 18 and 21 January 2002, OTP investigators interviewed Mr. Rade Marković. Mr. Marković was head of the RDB from October 1998 through January 2001. During this interview, two statements that had previously been provided to the OTP by officials from the MUP were shown to Mr. Marković. I have reviewed these statements, which relate to a domestic criminal prosecution against Mr. Marković. Statement 1, made on 22 May 2001, has OTP evidence reference number 02051418 to 02051421. Statement 2, made on 28 March 2001, has OTP evidence reference number 02051194 to 02051195. Copies of these statements are attached hereto as R8(b) and R8(c), respectively. During the interview, Mr. Marković stated that R7(b) and R7(c) are statements that he made voluntarily to representatives of the MUP and that the information contained in these statements is correct.

equipment was paid for abroad. I do not know about the technicalities of this payment because it was all finished relatively quickly in a period of 1-3 months and the equipment was used as intended for the requirements of the service of which I was head.

I really could not be certain what amount of foreign currency we are talking about. I do know that it was a considerable sum.

I spoke to President MILOŠEVIĆ for the second time at the beginning of 1999 to secure foreign currency for the procurement of special vehicles for the special operations units of the DB Department. Once more I cannot remember the exact amount of money but it was a considerable sum. I remember that Slobodan MILOŠEVIĆ himself told me in his office that he would call KERTES and that the money would be provided. This did happen, because after a certain time, I do not recall when, the money that had been requested arrived and was spent as intended. As far as I know, the SDB still has these vehicles today. I had no contact with any cash on this occasion either. As far as I know, everything was paid to a foreign supplier through the banks.

.....

I have no knowledge of or connection with any assets which might have gone in cash to finance anyone's or any kind of requirements. I have no idea about this. I cannot remember when or where, i.e. when he allocated funds for DB requirements as I explained previously, but *Mihalj KERTES told me personally that he had to ask Slobodan MILOŠEVIĆ for every allocation of money from Customs for DB requirements.* I know nothing of any other allocation of cash. (emphasis added)

38. In statement R8(c), Mr. Marković says, inter alia, that:

With regards to my role in using foreign currency and dinar funds of the Federal Customs Administration (SUC) and my alleged decisive influence over the then director Mihalj KERTES, I would like to point out that it is a case of incorrect and untrue interpretation. I did not have, neither could I have had such an influence on KERTES having in mind the widely-known fact that Mihalj KERTES, together with Nikola ŠAINOVIĆ, Nebojša PAVKOVIĆ and Vlajko STOJILJKOVIĆ used to be the closest associate (sic) of the former president of FRY Slobodan MILOŠEVIĆ. It is true that at the time when I was the Head of RDB (the State Security Sector) we received certain foreign currency and dinar funds from SUC. However, those funds were requested by and granted to RDB on the basis of operative needs or technical supplies, *purchasing equipment or rockets for our helicopter unit.* The procedure for getting the above-mentioned funds for purchasing equipment for RDB was set up earlier. Namely, *on the basis of requests of particular organisational units of RDB, usually the Special Operations Unit (JSO) I would inform MILOŠEVIĆ about the problems and requests during our direct and regular work contacts.*

Using the RDB budget in MUP could usually solve the problems. Slobodan MILOŠEVIĆ would afterwards in direct contact with KERTES order him to meet our requests and what happened afterwards depended on the current SUC resources. Technically the agreements would be carried out in the usual manner. The actual paying for the needed equipment and supplies was carried out via Beogradska Bank and other banks that I was not familiar with. After MILOŠEVIĆ had issued orders to KERTES, I would get in touch with KERTES and discuss the realization. It was usually carried out by Marjan ZOVIĆ and Raša KANDIĆ from RDB. (emphasis added)

39. In R8(a), the transcript of the interview with Mr. Marković, Mr. Marković confirmed that Mihalj Kertes, on the orders of Slobodan Milošević, provided funds for certain departments and services of the RDB as well as funds for the purchase of arms and equipment for the RDB.⁵⁷ Mr. Marković explained that Slobodan Milošević had "exceptional confidence" in Mr. Kertes.⁵⁸ Mr. Marković also confirmed that "all the units that formed part of the Ministry of Interior were sent to Kosovo."⁵⁹

R9 Notes of Interview with Ms. Borka Vučić

40. On 20 February 2001 Ms. Borka Vučić (formerly the Chief of the Beogradska Bank Offshore Banking Unit located in Cyprus and the FRY minister responsible for negotiating with international financial institutions) was interviewed by two officials of the MUP.⁶⁰ The notes of the meeting with Ms. Vučić state, inter alia, that:

“She stated that a need of special state interest for paying orders /bills/ occurred in 1997. Due to the nature of the business she did not investigate the details but she was taking care for the realisation of the orders /bills/. Money for these purposes would be provided by Federal Customs Services either in the way of the Customs workers bringing the money directly to Cyprus, or by deposit in vault of *Beogradska banka* in Belgrade as open storage room for transfer to Cyprus. On the side of delivering cash, instructions for urgent paying without noting of the purpose had been announced.

⁵⁷ R8(a), 17 January 2002, Tape 2, p.2 and 21 January 2002, Tape 1, p. 13.

⁵⁸ *Ibid.*, at p. 12.

⁵⁹ R8(a), 13 March 2002, Tape 1, p. 6.

⁶⁰ I have reviewed a copy of the notes made during this interview (hereinafter referred to as "R9") which are attached hereto.

As she knows, bills for 38.400.000 German Marks for equipment for special purposes for Army of Yugoslavia and MUP of Republic Serbia were paid through *BB COVU* (company) to the following beneficiaries:

Abridge	23.000.000 DEM
Neocom	5.800.000 DEM
C.C. Chidiac	6.500.000 DEM
Avia Trend	1.700.000 DEM
Microtri	900.000 DEM
Nitraco	<u>500.000 DEM</u>
	38.400.000 DEM

She stated that the documentation of these payments was to be found in foreign banks on Cyprus. She presented documentation available from *BB COBU*. The presented documentation relates only to a part of the payments”.

R10 Notes of Interviews with Senior Officials from the MUP.

41. Between 23 and 25 April 2001, senior officials from the MUP met with OTP investigators.⁶¹ According to the notes of this meeting, the senior officials of the MUP told the investigators, *inter alia*, that:
- i. In order to avoid the United Nations sanctions, the authorities of Yugoslavia had set up a number of companies and bank accounts based in Cyprus and Greece. The actual controllers of these companies were concealed from the banking officials in Cyprus and Greece. This concealment was achieved by placing the names of individuals who had no knowledge of the companies, and who were, in effect, unwitting and unknowing participants in the scheme, on the official bank disclosure documents. These companies traded on behalf of Yugoslav companies. However these companies appeared to third parties to be Cypriot or Greek companies; and
 - ii. Mihalj Kertes had used several entities in his scheme to transfer cash from the Federal Customs Administration to accounts held in the name of offshore (non-Yugoslavian) companies. The following entities were identified as being the receivers of the illegal cash: Abridge, Neocom, C.C. Chidiac, Avia Trend, Microtri and Nitraco.

⁶¹ I have reviewed a copy of the notes taken from this meeting (hereinafter referred to as "R10(a)"), which are attached hereto.

42. Between 16 - 18 October 2001, OTP investigators again met with Senior members of the MUP.⁶² According to the notes produced at this meeting an individual named Slobodan Rajh, through the company Abridge Trading Ltd., supplied the MUP with weapons and other material during the wars in Croatia, Bosnia and Kosovo. Mr Slobodan Rajh is a close friend of Mr. Franko Simatović.

R11 Notes of Meeting with Dušan Lalić, General Manager of the National Bank of Yugoslavia

43. On 11 July 2001 staff from the OTP met with Mr. Dušan Lalić, a General Manager (for the Legal Department) of the NBY.⁶³ In relation to the overseas banking transactions conducted by the FRY during the 1990's, Mr. Lalić stated:

- i. Borka Vučić was the most important financial figure in Yugoslavia during the 1990's. She could, and often did, walk into the office of the governor of the NBY unannounced and order him to perform certain tasks. She could, and did, communicate directly with Milošević when she wanted to talk with him; and
- ii. Borka Vučić was sent to the Republic of Cyprus as Chief of the Beogradska Bank Offshore Banking unit in order to facilitate financial transactions on behalf of the Milošević regime.

44. These comments by Mr. Lalić confirm the important position that Ms. Vučić had in Yugoslav banking during the 1990's and the reason why she was sent to the Republic of Cyprus.

R12 Letter from Mladjan Dinkić, Governor of the National Bank of Yugoslavia, to Afxentis Afxentiou, Governor of the Central Bank of Cyprus.

⁶² I have reviewed a copy of the notes taken from this meeting (hereinafter referred to as "R10(b)"), which are attached hereto.

⁶³ I have reviewed a copy of the notes taken during this meeting (hereinafter referred to as "R11") which are attached hereto.

45. On 15 December 2000, the current Governor of the NBY, Mladjan Dinkić, wrote a letter (hereinafter "R12") to Afxentis Afxentiou, the Governor of the Central Bank of Cyprus⁶⁴. This letter explains, in part, the role of offshore business units in Cyprus to complete financial transactions on behalf of the Milošević regime:

“After the introduction of the political and economic blockade against the former Socialist Federal Republic (SFRY) in 1992, we believe that the majority of the foreign currency sent offshore was channelled at one point or another via banks in Cyprus (Beogradska and Vojvodjanska). In addition, we have also learned that financial institutions from the former SFRY, and later the Federal Republic of Yugoslavia (FRY), used offshore business units in Cyprus and other jurisdictions as fronts to hold accounts with banks in Cyprus in order to carry out a variety of financial transactions on behalf of parties related to the Slobodan Milošević regime and business enterprises controlled by or for Milošević and his regime”

Companies Identified as Involved in the Supply of Equipment and Supplies to the VJ and MUP

46. In the interview of Ms. Borka Vučić described above, she identifies six companies that were the recipient of funds in this financial structure. These companies were provided with the funds to purchase equipment for the MUP and VJ. According to Ms. Vučić, the names of the enterprises and the amounts these companies received are:

Company Name:	Amount:
Abridge	23.000.000 DEM
Neocom	5.800.000 DEM
C.C. Chidiac	6.500.000 DEM
Avia Trend	1.700.000 DEM
Microtri	900.000 DEM
Nitraco	<u>500.000 DEM</u>

47. Senior officials of the MUP also identified these six companies as being the “receivers of illegal cash”. I presume that these senior officials based this statement on their interview of Ms. Borka Vučić.

⁶⁴ I have reviewed a copy of R12 obtained by the OTP, attached hereto.

R13 Abridge Trading Ltd. and Statement of Mr. Slobodan Rajh

48. According to a statement provided to the OTP, Slobodan Rajh operated a "trading company" called "Abridge Trading" on the island of Cyprus.⁶⁵ One of Mr. Rajh's initial associates in this venture was Vesna Simatović, the former wife of Franko Simatović. Abridge Trading's primary activity was the supply of equipment to the MUP.

49. Mr. Rajh stated that through his friendship with Franko Simatović, he met Jovica Stanišić, the head of the RDB. Mr. Rajh explained that "all my business activities went through bank transfers" and stated that most of Abridge Trading's banking activities were conducted with the Hellenic Bank in Cyprus:⁶⁶

"After arriving on Cyprus, I managed to activate all my business contacts very quickly, but I needed somebody who also knew other business (sic) and other territories. My old and very good friend is Mr. Franko Simatović. His ex wife with whom he have (sic) two children at that time had lost her employment by will of (sic) President of Chamber of Commerce at that time who was later a Minister of Interior. I helped family friends and got a good experienced aide with good knowledge. Her family problems, obligations towards her children and insufficient results she achieved led her to end (sic) commercial relationship."

I began, again, to practice my basic profession that I had been doing with Yugoheijma, namely, cooperating with Serbian and Federal Government ministries to assist them in arranging supplies for their needs. This business lasted until sanctions again were placed on foreign dealings with Yugoslavia in 1999.⁶⁷

50. By invitation of government clients based in Belgrade, Abridge Trading organised the supply of equipment. Following the signing of the Dayton Accords, Abridge Trading did business primarily on behalf of the MUP of the

⁶⁵ This statement, referred to as "R13", bears ERN F104-3005-F104-3017 and is attached hereto. In R13, Mr. Rajh describes himself as a businessman, "electrical engineer" and "foreign trade expert" and explains how for eighteen years, from 1974 to 1992, he worked for the Yugoslav company "Jugohemija." Mr. Rajh's role at Jugohemija was to negotiate with international suppliers and purchase the equipment and machinery necessary for the Yugoslavian and Republic government and their ministries. Mr. Rajh expressly denied that he has ever been an agent of the RDB. In 1994, Mr. Rajh decided to move to Cyprus to operate a trading company. The name of the company that Mr. Rajh operated in Cyprus was called "Abridge Trading". Abridge Trading became an active trading company in early 1994.

⁶⁶ *Ibid*, at pp. 7 - 8.

Republic of Serbia.⁶⁸ This business consisted of supplying equipment for the MUP. "Four or five different companies" deposited money for these supplies into Abridge Trading's bank accounts, on behalf of the MUP.⁶⁹ According to Mr. Rajh, he did not pay close attention to the names of these companies, and can only recall the name of one such entity: "Browncourt."⁷⁰ Mr. Rajh stopped supplying the MUP with equipment when economic sanctions were again imposed on the FRY in 1999.⁷¹ Mr. Rajh confirmed that he received an award from the MUP in 1997 and that Slobodan Milošević was present at the same location on the day of the award ceremony.⁷²

Aviatrend Ltd. and Valeri Tchernyi

51. Swiss banking records disclose that Aviatrend was incorporated in Gibraltar on 13 July 1994. The beneficial owners of Aviatrend were identified as Valeri Tchernyi, born on 23 April 1949, and Alexandre Chtchegolev, who each have a 50% stake in the company through their nominee companies. Valeri Tchernyi is a Russian citizen. According to banking documentation, when Aviatrend opened a Swiss bank account, Valeri Tchernyi was stated to be the sole beneficial owner of Aviatrend. Valeri Tchernyi is a signatory of the Aviatrend accounts held with the Commercial Bank Neftinvestbank in Sofia, Bulgaria and with the Compagnie Bancaire Geneve in Switzerland. Bulgarian police officials have stated to the OTP that Valeri Tchernyi is also known by Interpol under the name Viktor Vassilievich Dudenkov and is alleged to be connected with arms trafficking. A recent United Nations report also alleged that Mr. Tchernyi (or "Cherny") was involved in arms trafficking.⁷³

Neocom Trading and Borislav Milošević

52. Neocom was permitted to operate as an international business in Cyprus on 9 October 1997. At this time the nominated beneficial owner of this business

⁶⁷ *Ibid.*, at p. 8.

⁶⁸ *Ibid.*

⁶⁹ *Ibid.*

⁷⁰ *Ibid.*

⁷¹ *Ibid.*, at p. 12.

⁷² *Ibid.*, at p. 10.

⁷³ Part of the Executive Summary of this report is attached hereto as "Attachment C."

was Borislav Milošević, of Josifa Marinkovica 2, Belgrade, Yugoslavia. Borislav Milošević is the brother of Slobodan Milošević and was formerly the FRY's ambassador to Russia. On 1 September 1998 a request was submitted to the National Bank of Cyprus to change the nominated beneficial owner of Neocom to Mr. Svetozar Milošević of Josifa Marinkovica 2, Belgrade, Yugoslavia, holder of Yugoslavia diplomatic passport 017962 and born on 11 April 1978 was made. Neocom opened three accounts with the Beogradska Bank Cyprus Offshore Banking Unit (BB COBU), -a current account, a deposit account and a letter of credit temporary account.

Nitrako Inc. and Mr. Yan Shukun

53. Nitrako Inc. is a Panamanian company and was incorporated on 5 May 1993. The Director of the company is Mr. Yan Shukun who is a Chinese National, born on 8 January 1954. On 3 February 1994 Mr. Shukun issued a Power of Attorney (backdated to 24 November 1993) to Mr. Momcilo Katanić, born 30 December 1947, and a Yugoslav national “to open and close accounts and to withdraw and receive funds”. On 3 November 1993, Mr. Yan Shukun issued an authorisation to Ms. Ljiljana Katanić and Mr. Zeljko Miksić to operate various USD, DM and ITL denominated bank accounts that Nitrako Inc. had opened with the Bank Fur Arbeit und Wirtschaft.
54. In my professional opinion, documents R1 - R13, and R15 demonstrate the design and operation of a financial structure created to facilitate payments for the purchase of materials, supplies and equipment for institutions of the FRY and the Republic of Serbia between 1994 and 2000. The diagram referred to as R15 graphically depicts some of the parts of this financial structure and some of the individuals who participated in its creation and operation.

Part B

Review and forensically analyse the financial documentation related to the financial structure(s) provided by banks located in Austria, Bulgaria, Cyprus, Greece and Switzerland; and

Provide an expert opinion on whether the financial transactions evidenced from the banking documentation corroborates the existence of the above-mentioned financial structure(s).

55. From my review of the banking documentation that relates to the Cyprus Popular Bank, I can state that in the years 1990 and 1991 the National Bank of Yugoslavia maintained and operated bank accounts with BB COBU. From 1992 until 2000 these accounts were either dormant or the funds in these accounts were frozen by the Republic of Cyprus acting on the requests of successor states (Croatia and Slovenia).
56. From mid 1992, a number of enterprises began to incorporate in Cyprus. These companies, once established, opened bank accounts with BB COBU and the Cyprus Popular Bank and, from mid-1992, conducted a large number of (trading) transactions. The names of these companies are: Antexol Trade Ltd. ("Antexol"), Browncourt Enterprises Ltd. ("Browncourt"), Cabcom Marketing Ltd. ("Cabcom"), Hillsay Marketing Ltd. ("Hillsay"), Lamoral Trading Ltd. ("Lamoral"), Southmed Holdings Ltd. ("Southmed"), Vericon Management Ltd. ("Vericon") and Vantervest Overseas Ltd. ("Vantervest"), (referred to collectively as "the Cypriot Companies").
57. Cypriot law allows for nominee individuals to be named as the Directors and Shareholders of Cypriot companies on company incorporation documents, and only requires the identity of the actual controller of the company (the "nominated beneficial owner") to be provided to the National Bank of Cyprus. The Cyprus National Bank documents record the beneficial owners of these companies as: Vantervest: -Ms. Zagorka Corović; Antexol: -Ljiljana Randenković (until 1995) then Ms. Radmilla Budisin; Lamoral: -Mrs. Olga Nikić; Hillsay: -Ms. Zagorka Corović; Southmed - incorporated in Guernsey on 23 April 1993 and established in Cyprus by the law firm of Tassos Papadopoulos in December 1993. Cabcom was incorporated in the British Virgin Islands on 28 February 1997 (under Cypriot law, as Southmed and Cabcom are incorporated in a foreign jurisdiction, there is no requirement to forward the names of the beneficial owner(s) of the company to the Central

Bank of Cyprus); Vericon: - Zagorka Corović; Browncourt: - Radmila Budisin.

R14 Notes of Interview with Radmila Budisin

58. Notes of an OTP interview with Ms. Radmila Budisin disclose that Browncourt was created without her signature, knowledge, or permission and she had no control of the company since its inception in June 1995.⁷⁴ Ms. Budisin further stated that she has no knowledge of the company Antexol being transferred to her in 1995 and this transfer was done without her signature, knowledge or permission. She is the distant relative of Borka Vučić's deceased husband.
59. A statement provided by Ms. Ljiljana Radenković⁷⁵ to the OTP discloses that since 1989 she has worked for the Anglo- Yugo Bank ("AY Bank") in London. Beogradska Bank, Belgrade is the majority shareholder of AY Bank. In late 1995 or early 1996, Borka Vučić told her that in order to prevent the seizure of the assets of Beogradska, as a result of a large lawsuit, Ms. Vučić was planning to establish several trading companies under different names and to transfer Beogradska Bank's liquid assets to the accounts of these companies. Ms. Radenković was told by Ms. Vucić to sign an undated document that referred to the establishment of a company in Cyprus known as Antexol. The document authorised Beogradska Banka, Offshore Banking Unit, Nicosia to handle all the affairs and transactions of the company. Ms. Radenković had no further discussion with any officials regarding Antexol.
60. The Cypriot companies operated bank accounts with banks located in the Republic of Cyprus and the Republic of Greece. An examination of the banking records provided by the Republic of Cyprus to the OTP reveals that many of the transactions conducted by these eight companies were performed following instructions from staff at BB COBU, including Ms. Borka Vučić.

⁷⁴ A copy of these notes is attached hereto as R14.

⁷⁵ OTP Investigator Rohan Schaap interviewed Liljana Radenković on the 25th and 27th of March 2001. Witness statement Radenković, OTP evidence reference no. FI008295 - FI008299.

Deposits of Cash into the Bank Accounts of Eight Cypriot Companies

61. I have analysed the banking records for the eight Cypriot companies to determine the origin of the deposits made into their Cypriot bank accounts. My analysis reveals that large amounts of foreign currency in various denominations were deposited into these accounts in the period July 1992 – June 2000. I have been able to determine that the total of the cash deposits made into the Cypriot bank accounts of these companies in the period July 1992 - June 2000 was at least:

DEM	1.032.207.200,00
USD	80.038.242,00
CHF	63.809.060,00
ATS	390.241.674,00
AUD	546.843,00
SEK	1.940.213,00
FRF	23.509.234,00
GBP	312.926,00
BEF	223.876,00
ITL	589.233.348,00

62. I have further been able to determine that for the period January 1998 - June 1999 that the total of the cash deposits made into the Cypriot bank accounts of these companies was at least:

DEM	508.569.995,00
USD	20.652.385,00
CHF	15.907.727,00
ATS	257.909.414,00
AUD	9.990,00
SEK	793.240,00
FRF	6.047.537,00
GBP	61.374,00
BEF	223.876,00

63. From my analysis I can state that the three companies, Vantervest, Browncourt and Vericon, were the major recipients of these cash deposits. There was relatively little cash deposited into any of the bank accounts of the eight Cypriot Companies after March 1999.
64. I have reviewed the documents relating to the deposits of cash in the bank accounts of the eight Cypriot companies. These documents include the Cypriot Customs declarations completed by the individuals transporting the cash into Cyprus. The customs declarations require the name and passport number of the person taking the cash into Cyprus ("the cash courier"). The cash couriers are all revealed to be Yugoslavian citizens, who accompanied the cash on private and commercial flights from the FRY, Greece, Bulgaria and Hungary.
65. Several of the names of the cash couriers are identical to the names of persons listed as employees of Beogradska Banka A.D. in Belgrade and BB COBU in Cyprus. The Cypriot customs declarations disclose that Mr. Zoran Markovic and Mr. Slobodan Acimovic accompanied the cash on a number of occasions. Mr. Zoran Marković was an Executive Director with Beogradska Banka A.D. in Belgrade and a Mr. Slobodan Acimovic was an Assistant Managing Director at BB COBU in Cyprus⁷⁶.
66. Cypriot customs forms reveal that Mr. "Drakomir" or "Dragomir" Stojkovic declared large amounts of foreign currency to Cypriot Customs officials on many occasions. On one occasion, on 27 December 1998, he declared that he was importing a total of DEM 34.838.895,00 into Cyprus. This declaration date of 27 December 1998 is the same date that Mihalj Kertes visited Cyprus. Mr. Kertes acknowledged that on one occasion, he accompanied a large amount of cash that he knew to have originated in the Federal Customs Administration. In total, "Drakomir" or "Dragomir" Stojković declared a total of DEM 453.063.376,00 through Cypriot Customs in the period March 1998 - March 1999, and all of this amount was credited to the DEM account,

⁷⁶ FI025410 - FI025442: 1995 Annual Report for Beogradska Banka A.D. in Belgrade (Zoran Marković is on FI025438)

numbered 048-33-17016, held by Browncourt Enterprises Ltd. with Cyprus Popular Bank in the Republic of Cyprus.

67. Below is a detailed breakdown of the cash deposits into Browncourt's DEM account no. 048-33-17016 with Cyprus Popular Bank in the Republic of Cyprus in the period January 1998 - March 1999. The table also makes reference to the Customs declarations relevant for these cash deposits. Apart from one cash deposit made on 9 April 1998, I have been able to trace all of the cash deposits in the period January 1998 to June 1999 to Cyprus customs declarations.

Cash Credits (Deposits) into Browncourt Deutsche Mark Account with Cyprus Popular Bank

Account Date	048-33-17016 Details	Credit	Statement ERN	Customs ERN	Courier Name	Voucher ERN
29/01/98	Purchase Foreign Currency Notes	DEM 4,222,798	FI000965	FI026936	Markovic	FI026935
09/02/98	Purchase Foreign Currency Notes	DEM 2,752,175	FI000965	FI026938	Stanojevic	FI026937
16/02/98	Purchase Foreign Currency Notes	DEM 3,033,813	FI000967	FI026941	Markovic	FI026940
24/02/98	Purchase Foreign Currency Notes	DEM 3,241,160	FI000967	FI026943	Markovic	FI026942
09/03/98	Purchase Foreign Currency Notes	DEM 5,970,353	FI000969	FI026948	Stojkovic	FI026947
23/03/98	Purchase Foreign Currency Notes	DEM 5,789,259	FI000969	FI026950-51	Stojkovic	FI026949
06/04/98	Purchase Foreign Currency Notes	DEM 11,354,988	FI000969	FI026946	Stojkovic	FI026945
09/04/98	Journal Credit	DEM 8,349,961	FI000971	FI026954	Stojkovic	FI026953
23/04/98	Purchase Foreign Currency Notes	DEM 8,203,743	FI000971	FI026956	Stojkovic	FI026955
04/05/98	Purchase Foreign Currency Notes	DEM 8,290,875	FI000973	FI026959	Stojkovic	FI026958
11/05/98	Purchase Foreign Currency Notes	DEM 5,565,988	FI000975	FI026962	Markovic	FI026961
18/05/98	Purchase Foreign Currency Notes	DEM 10,772,281	FI000975	FI026964	Stojkovic	FI026963
01/06/98	Purchase Foreign Currency Notes	DEM 9,332,168	FI000977	FI026967	Stojkovic	FI026966
11/06/98	Purchase Foreign Currency Notes	DEM 6,832,081	FI000979	FI026970	Stojkovic	FI026969

1992 FI025404 - FI025409, 1992 Annual Report for Beogradska Banka D.D. Cyprus Offshore Unit. (Borka Vučić and Slobodan Acimović appear on FI025405).

AMENDED EXPERT REPORT OF MORTEN TORKILDSEN

22/06/98	Purchase Foreign Currency Notes	DEM 8,566,854	FI000979	FI026972	Stojkovic	FI026971
02/07/98	Purchase Foreign Currency Notes	DEM 20,434,215	FI000981	FI026975	Stojkovic	FI026974
13/07/98	Purchase Foreign Currency Notes	DEM 12,971,925	FI000983	FI026978	Stojkovic	FI026977
20/07/98	Purchase Foreign Currency Notes	DEM 8,120,451	FI000983	FI026980	Stojkovic	FI026979
27/07/98	Purchase Foreign Currency Notes	DEM 9,287,867	FI000985	FI026983	Stojkovic	FI026982
03/08/98	Purchase Foreign Currency Notes	DEM 14,369,616	FI000985	FI026985	Stojkovic	FI026984
10/08/98	Purchase Foreign Currency Notes	DEM 14,437,333	FI000987	FI026988	Stojkovic	FI026987
24/08/98	Purchase Foreign Currency Notes	DEM 14,763,276	FI000989	FI026991	Stojkovic	FI026990
31/08/98	Purchase Foreign Currency Notes	DEM 9,267,463	FI000989	FI026993	Stojkovic	FI026992
07/09/98	Purchase Foreign Currency Notes	DEM 10,146,553	FI000991	FI026996	Stojkovic	FI026995
14/09/98	Purchase Foreign Currency Notes	DEM 9,534,241	FI000993	FI026999	Markovic	FI026998
17/09/98	Purchase Foreign Currency Notes	DEM 15,667,157	FI000993	FI027001	Stojkovic	FI027000
22/09/98	Purchase Foreign Currency Notes	DEM 6,401,671	FI000993	FI027003	Stojkovic	FI027002
02/10/98	Purchase Foreign Currency Notes	DEM 19,764,370	FI000995	FI027006	Stojkovic	FI027005
15/10/98	Purchase Foreign Currency Notes	DEM 15,140,209	FI000997	FI027009	Stojkovic	FI027008
02/11/98	Purchase Foreign Currency Notes	DEM 23,182,913	FI000999	FI027012	Stojkovic	FI027011
09/11/98	Purchase Foreign Currency Notes	DEM 9,846,188	FI000999	FI027014	Stojkovic	FI027013
16/11/98	Purchase Foreign Currency Notes	DEM 9,969,805	FI001001	FI027017	Stojkovic	FI027016
23/11/98	Purchase Foreign Currency Notes	DEM 8,409,327	FI001001	FI027019	Stojkovic	FI027018
30/11/98	Purchase Foreign Currency Notes	DEM 5,810,748	FI001003	FI027022	Stojkovic	FI027021
09/12/98	Purchase Foreign Currency Notes	DEM 8,986,099	FI001005	FI027025	Stojkovic	FI027024
14/12/98	Purchase Foreign Currency Notes	DEM 6,003,835	FI001005	FI027027	Stojkovic	FI027026
21/12/98	Purchase Foreign Currency Notes	DEM 32,829,022	FI001005	FI027029	Stojkovic	FI027028
23/12/98	Purchase Foreign Currency Notes	DEM 13,133,273	FI001005	FI027031	Markovic	FI027030
28/12/98	Purchase Foreign Currency Notes	DEM 17,982,000	FI001007	FI027034	Stojkovic	FI027033
28/12/98	Purchase Foreign Currency Notes	DEM 16,822,056	FI001007	FI027034	Stojkovic	FI027035

AMENDED EXPERT REPORT OF MORTEN TORKILDSEN

07/01/99	Purchase Foreign Currency Notes	DEM 10,904,149	FI001009	Missing		FI026780
20/01/99	Purchase Foreign Currency Notes	DEM 11,501,586	FI001009	FI026784	Stojkovic	FI026783
01/02/99	Purchase Foreign Currency Notes	DEM 13,707,508	FI001011	FI026787	Stojkovic	FI026786
03/02/99	Purchase Foreign Currency Notes	DEM 4,317,108	FI001013	FI026789-92	Stojkovic	FI026788
10/02/99	Purchase Foreign Currency Notes	DEM 5,723,610	FI001013	FI026796	Stojkovic	FI026795
23/02/99	Purchase Foreign Currency Notes	DEM 5,382,107	FI001014	FI026802-04	Stojkovic	FI026801
01/03/99	Purchase Foreign Currency Notes	DEM 10,587,676	FI001015	FI026806-08	Stojkovic	FI026805
08/03/99	Purchase Foreign Currency Notes	DEM 3,148,543	FI001015	FI026810-12	Stojkovic	FI026809
10/03/99	Purchase Foreign Currency Notes	DEM 3,119,022	FI001015	FI026814-16	Acimovic	FI026813
22/03/99	Purchase Foreign Currency Notes	DEM 4,618,576	FI001016	FI026818-20	Stojkovic	FI026817
	TOTAL	DEM 508,569,995				

68. From my analysis of the bank statements, customs declarations and vouchers of the eight Cypriot companies, it is my opinion that large amounts of foreign currency were deposited in cash into the account of Browncourt. As the deposits were in cash, it is impossible with absolute certainty to ascertain the source of the funds when conducting only an examination of the banking vouchers and bank statements. However, it is my opinion that based on the names of the individuals depositing the currency, the method of deposit via plane from Yugoslavia, the large amounts involved and the account into which these deposits were made, (an account controlled by representatives of BB COBU), the deposits corroborate information concerning the financial structure described in Part A of this report.

Debits (Withdrawals) from the Cypriot Companies

69. For the period January 1998 to June 1999, I have traced a number of the debits (payments) from the DEM Browncourt accounts held with the Cyprus Popular Bank to external sources. By "external sources" I mean transactions not going to an account of one of the eight Cypriot companies. These debits total approx. DEM 62 million, consisting of 290 transactions. I have also traced a

number of other debit transactions made by the other seven Cypriot Companies. The transactions that I have been able to trace are only a small percentage of the total transactions completed by the eight Cypriot companies. In addition, my analysis reveals that these eight companies also had accounts with the European Popular Bank in Cyprus. There were many large transactions between the accounts held with the European Popular Bank and the Cyprus Popular Bank. Without access to all the records of the European Popular bank accounts of the eight Cypriot companies, it is impossible to reconstruct all the debit transactions of the eight companies.

70. Included in the payments that I have been able to trace are payments to Abridge Trading Ltd., Aviatrend Ltd., Microti Ltd., Neocom Trading Ltd. and Nitrako Inc. Also, I have been able to trace payments to CC Chidiac, but these transactions occurred outside of the period from 1 January 1998 to 30 June 1999. According to Ms. Borka Vučić, Abridge Trading Ltd., Aviatrend Ltd., Microti Ltd., Neocom Trading Ltd. and Nitrako Inc. are five of the six companies that received payments on behalf of the MUP and the VJ for the purchase of "special purposes equipment."⁷⁷

Abridge trading Limited

71. Abridge was established in Cyprus in June 1992. At the time it was established the shareholders of the company were Mr. Slobodan Rajh and Mr. Branko Jeremić both from Belgrade, Yugoslavia. They both held an equal share of Abridge, either as direct owners or through a nominee company. The directors of Abridge are stated as being Branko Jeremić, Slobodan Rajh and Vesna Simatović and the signatories to Abridge accounts are Vesna Simatović or Slobodan Rajh.
72. I have reviewed the bank statements, account opening documentation and vouchers for the bank accounts of Abridge held with the Hellenic Bank, Limassol Main Branch (one USD account and one DM account) and the Federal Bank of the Middle East (FBME) Limassol Branch (two USD

⁷⁷ R9

accounts) in Cyprus. My review of these documents (R13(a) - (bb), indicates that⁷⁸:

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- ⁷⁸ R13(A) ERN F1021916, Document Establishing Abridge Trading Limited in Cyprus, 26 June 1992. Fifty percent of ownership pertained to Mr. Branko Jeremić and fifty percent of ownership pertained to Mr. Slobodan Rajh.
- R13(B) ERN F1021913, Certificate Establishing Directors of Abridge Trading Limited: Slobodan Rajh, Branko Jeremić and Vesna Simatović, 6 September 1994.
- R13(a) ERN F1025925, 9 December 1996, Transfer of USD 127,500 from Abridge Trading, Ltd., Hellenic Bank, Cyprus to account of Elop Electro Optics Industries, Ltd., Bank Hapoalim BM, Rehovot, Israel.
- R13(b) ERN F1025949, 18 May 1997, Request for Transfer of USD 706,500 from Abridge Trading, Ltd., Hellenic Bank, Cyprus to account of Elop Electrooptics Industries, Ltd., Bank Hapoalim BM, Rehovot, Israel, Signed by "S. Rajh".
- R13(c) ERN F1025948, 21 May 1997, Transfer of USD 706,500 from Abridge Trading, Ltd., Hellenic Bank, Cyprus to account of Elop Electrooptics Industries, Ltd., Bank Hapoalim BM, Rehovot, Israel.
- R13(d) ERN F1025983, 10 October 1997, Transfer of USD 33,553 from Abridge Trading, Ltd., Hellenic Bank, Cyprus to account of Radom Aviation Products Manufacturing 1989 Ltd., Bank Leumi, Petach Tikva, Israel.
- R13(e) ERN F1026026, Request for Transfer of GBP 5,000 from Abridge Trading, Ltd., Hellenic Bank, Cyprus to account of Slingsby Amphibious Hovercraft, Ltd., Lloyd's Bank, London and Request for Transfer of USD 127,500 from Abridge Trading, Ltd., Hellenic Bank, Cyprus to account of "Elop", Bank Hapoalim BM, Rehovot, Israel.
- R13(f) ERN F1026028, 27 January 1998, Transfer of USD 127,500 from Abridge Trading, Ltd., Hellenic Bank, Cyprus to account of "Elop", Bank Hapoalim BM, Rehovot, Israel.
- R13(g) ERN F1026030, 29 January 1998, Transfer of USD 52,750 from Abridge Trading, Ltd., Hellenic Bank, Cyprus to account of Afid Spe Ltd., United Mizrahi Bank Ltd., Tel Aviv ("Payment for Goggles Advance")
- R13(h) ERN F1026049, 26 February 1998, Request for Transfer of USD 64,275 from Abridge Trading, Ltd., Hellenic Bank, Cyprus to account of Afid s.p.e. Ltd., Mizrahi Bank Ltd., Israel, "Advance Payment for 10 Goggles" (signed by "S. Rajh").
- R13(i) ERN F1026048, 27 February 1998, Transfer of USD 64,275 from Abridge Trading, Ltd., Hellenic Bank, Cyprus to account of Afid S.P.E. Ltd., Mizrahi Bank Ltd., Israel.
- R13(j) ERN F1026057, 9 March 1998, Request for Transfer of USD 22,500 from Abridge Trading, Ltd., Hellenic Bank, Cyprus to account of Elop, Bank Hapoalim Ltd., Rehovot, Israel, Signed by "S. Rajh," partial payment for Invoice No. 98018951, sent to:
Staza Ltd., Mientija Popovica 6, Apartment 111, Belgrade, Yugoslavia.
- R13(k) ERN F1026058, 9 March 1998, Debit Advice Regarding Transfer of USD 22,500 from Abridge Trading, Ltd., Hellenic Bank, Cyprus.
- R13(l) ERN F1026069, 27 March 1998, Application for Foreign Exchange Transfer of USD 117,855 from Abridge Trading Ltd., to Elop Electro-Optics Industries, Ltd., Bank Hapoalim BM, Rehovot, Israel.
- R13(m) ERN F1026059, 30 March 1998, Transfer of USD 37,500 from Abridge Trading, Ltd., Hellenic Bank, Cyprus to account of Elop Industries, Ltd., Bank Hapoalim BM, Rehovot, Israel.
- R13(n) ERN F1026067, 2 April 1998, Transfer of USD 117,855 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of Electro Optics Industries Ltd., Bank Hapoalim BM, Rehovot, Israel.
- R13(o) ERN F1026068, 2 April 1998, Verification of Transfer of USD 117,855 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of Electro Optics Industries Ltd., Bank Hapoalim BM, Rehovot, Israel.
- R13(p) ERN F1026146 - F1026148, 7 May 1998, Credit Documents concerning eventual transfer of USD 85,675 from Abridge Trading, Ltd., Hellenic Bank, Cyprus to account of M/S International Technologies (Lasers) Ltd., Israeli Discount Bank, Ltd., Tel Aviv, Israel, for Transportation from Israel Airport to Belgrade Airport.

R13(q)	ERN F1026088, 18 May 1998, Transfer of USD 60,000 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of Electro Optics Industries Ltd., Bank Hapoalim BM, Rehovot, Israel.
R13(r)	ERN F1026109, 23 June 1998, Request for Transfer of USD 20,000 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of Afid S.P.E. Ltd., United Mizrahi Bank Ltd., Israel, signed by "S. Rajh."
R13(s)	ERN F1026228 - F1026229, 23 June 1998, Application for Documentary Credit, Applicant: Abridge Trading Ltd., Cyprus, Beneficiary: Noga Lite Ltd., Israel, Amount: USD 140,000, Description of Goods: 20 Pocket Scope and 20 D/N Units, CIF Belgrade Airport, Goods Consigned to M/S Abridge Trading Ltd., Belgrade Office.
R13(t)	ERN F1026230, 25 June 1998, Credit documents concerning eventual transfer of USD 140,000 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of Noga Lite Ltd., Bank Leumi, Tel Aviv, Israel.
R13(u)	ERN F1026103, 25 June 1998, Transfer of USD 70,500 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of Electro Optics Industries Ltd., Bank Hapoalim BM, Rehovot, Israel.
R13(v)	ERN F1026113, 2 July 1998, Transfer of USD 43,350 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of Radom Aviations Systems Ltd., Bank Leumi, Israel.
R13(w)	ERN F1026172, 31 July 1998, Application for Foreign Exchange Transfer of USD 20,000 from Abridge Trading Ltd., to Afid S.P.E. Ltd., United Mizrahi Bank, Ltd., Tel Aviv, Israel, "Rest of Payment for RunFlat Systems".
R13(x)	ERN F1026167, 31 July 1998, Transfer of USD 50,000 Abridge Trading Ltd., Hellenic Bank, Cyprus to account of Afid SPE Ltd., United Mizrahi Bank, Ltd., Tel Aviv, Israel.
R13(y)	ERN F1026173, 5 August 1998, Transfer of USD 37,500 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of Elop Electrooptics, Bank Hapoalim BM, Rehovot, Israel.
R13(z)	ERN F1026179, 18 August 1998, Request for Transfer of USD 50,000 from Abridge Trading Ltd., to AFID S.P.E., United Mizrahi Bank, Ltd., Karnei Shomron Branch, Israel, "Payment for M.D.T." Signed by "S. Rajh."
R13(aa)	ERN F1026183, 26 August 1998, Request for Transfer of USD 48,000 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of Elop Electrooptics, Bank Hapoalim BM, Rehovot, Israel, signed by "S. Rajh."
R13(ab)	ERN F1026187, 31 August 1998, Request for Transfer of USD 50,000 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of M.D.T., Bank Leumi, Oryehuda, Israel, "Payment for Material and Installation-3 Vehicles," Signed by "S. Rajh."
R13(ac)	ERN F1026205, 9 September 1998, Transfer of USD 20,000 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of AFID SPE LTD., United Mizrahi Bank, Ltd., Tel Aviv, Israel.
R13(ad)	ERN F1025803, 18 September 1998, Request for Transfer of USD 43,200 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of Noga Lite, Bank Leumi, Tel Aviv, Israel, signed by "S. Rajh."
R13(ac)	ERN F1025799, 14 October 1998, Request for Transfer of USD 38,976 from Abridge Trading, Hellenic Bank, Cyprus to account of Afid Spe Ltd., United Mizrahi Bank Ltd., Israel, Signed by "S. Rajh."
R13(af)	ERN F1025787, 21 October 1998, Transfer of USD 48,000 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of Elop Electro Optics Industries Ltd., Bank Hapoalim BM, Rehovot, Israel.
R13(ag)	ERN F1025774, 2 December 1998, Transfer of USD 34,500 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of Elop Electro Optics Industries Ltd., Bank Hapoalim BM, Rehovot, Israel.
R13(ah)	ERN F1025682, 23 December 1998, Request for Transfer of USD 78,000 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of Elop Electro Optics Industries Ltd., Bank Hapoalim BM, Rehovot, Israel, for "9 Pieces of Converter," signed by "S. Rajh."
R13(ai)	ERN F1025685, 24 December 1998, Request for Transfer of USD 15,000 from Abridge Trading Ltd., Hellenic Bank, Cyprus to M.D.T. Protective Industries, Ltd., Bank Leumi, Israel, "For Material and Installation," Signed by "S. Rajh."

The FBME accounts in Cyprus:

- were opened on 10 October 1994;
- signatory rights belonged to Slobodan Rajh and Vesna Simatović (just one signature required);
- the total outflow of money from the USD accounts between January 1998 and June 1999 was at least USD 2,7 million while the inflow was at least USD 2,7 million;
- A portion of the outflow of funds was transferred to Israeli corporations known to manufacture and distribute military equipment; and
- for some shipments, delivery was made to Belgrade.

R13(aj)	ERN F1025680, 29 December 1998, Transfer of USD 78,000 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of Elop Electro Optics Industries Ltd., Bank Hapoalim BM, Rehovot, Israel.
R13(ak)	ERN F1025681, Verification of Transfer of USD 78,000 from Abridge Trading Ltd., Hellenic Bank, Cyprus to Bank Hapolaim B.M. Tel Aviv, Israel for Elop Electro Optics Industries Ltd.
R13(al)	ERN F1025686, 29 December 1998, Transfer of USD 50,000 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of Elop Electro Optics Industries Ltd., Bank Hapoalim BM, Rehovot, Israel.
R13(am)	ERN F1025693, 14 January 1999, Transfer of USD 219,000 from from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of Elop Electro Optics Industries Ltd., Bank Hapoalim BM, Rehovot, Israel.
R13(an)	ERN F1025740, 19 January 1999, Application for Foreign Exchange Transfer of USD 24,960 from Abridge Trading Ltd., to M.D.T. Yehud Israel, Bank Leumi.
R13(ao)	ERN F1025738, Transfer of USD 24,960 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of M.D.T. Yehud Israel, Bank Leumi, Tel Aviv, Israel.
R13(ap)	ERN F1025739, 26 January 1999, Verification of Transfer of USD 24,960 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of M.D.T. Yehud Israel, Bank Leumi, Tel Aviv, Israel.
R13(aq)	ERN F1025761, 16 February 1999, Request for Transfer of USD 38,240 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of M.D.T. Protective Industries, Ltd., Bank Leumi, Israel, handwritten: "Confirm by Mr. Rajh," Signed by "S. Rajh."
R13(ar)	ERN F1025752, 17 February 1999, Transfer of USD 21,900 from El-Op-Electro Optics Industries Ltd. (Bank Hapoalim B.M., Tel Aviv, Israel), to Abridge Trading Ltd.
R13(as)	ERN F1025732, 17 March 1999, Request for Transfer of USD 20,000 from Abridge Trading Ltd., Hellenic Bank, Cyprus to account of M.D.T. Protective Industries, Ltd., Bank Leumi, Israel, signed by "S. Rajh."
R13(at)	ERN F1025663, 10 January 2000, Request for Transfer of USD 60,000 from Abridge Trading, Hellenic Bank, Cyprus to account of Slobodan Rajh, Bank Leumi, Tel Aviv, Israel, signed by "S. Rajh."
R13(au)	F1025661, 11 January 2000, Transfer of USD 60,000 from Hellenic Bank, Cyprus to account of Slobodan Rajh, Bank Leumi, Tel Aviv Israel.
R13(av)	F1025662, 11 January 2000, Verification of Transfer of USD 60,000 from Hellenic Bank, Cyprus to account of Slobodan Rajh, Bank Leumi, Tel Aviv Israel.

The Hellenic Bank accounts in Cyprus:

- were opened 3 November 1993;
- signatory rights belonged to Slobodan Rajh;
- the total outflow of money from the DM current account between January 1998 and June 1999 was at least DM 1,8 million while the inflow was at least DM 2 million;
- the total outflow of money from the USD current account between January 1998 and June 1999 was at least USD 11 million while the inflow was at least USD 10,8 million;
- A portion of the outflow of funds was transferred to Israeli corporations known to manufacture and distribute military equipment; and
- for some shipments, delivery was made to Belgrade.

Credits (Payments) to Abridge Trading

73. I have been able to trace the following payments from the Cypriot Bank accounts of the eight Cypriot companies to accounts held by Abridge Trading Ltd. with the Hellenic Bank.

Date	Amount	From	Referenc e	Bank
27/06/95	\$380,500.00	Vantervest	FI025890	Hellenic
12/11/96	\$1,659,000.00	Lamoral	FI004001	Hellenic
25/11/96	\$1,491,212.00	Lamoral	FI004002	Hellenic
10/09/97	\$138,080.00	Lamoral	FI004025	Hellenic
10/09/97	\$210,000.00	Lamoral	FI004026	Hellenic
29/01/98	\$175,040.00	Browncourt	FI005484	Hellenic
03/04/98	\$114,000.00	Lamoral	FI004146	Hellenic
08/04/98	\$66,900.00	Lamoral	FI004142	Hellenic
11/05/98	DEM 385,000.00	Browncourt	FI006803	Hellenic
13/05/98	\$170,000.00	Vericon	FI005978	Hellenic
13/05/98	\$560,880.00	Vericon	FI005979	Hellenic
13/05/98	\$78,400.00	Vericon	FI005980	Hellenic
27/05/98	\$302,815.00	Vericon	FI006015	Hellenic
24/06/98	\$169,837.41	Vericon	FI026098	Hellenic
02/07/98	\$250,000.00	Lamoral	FI026129	Hellenic
16/12/98	\$795,120.00	Lamoral	FI004163	Hellenic
23/12/98	\$212,640.00	Lamoral	FI004166	Hellenic
24/02/99	\$299,555.00	Browncourt	FI005415	Hellenic
Total	\$7,073,979.41			
USD				

Total DEM 385,000.00

74. My analysis of Abridge bank accounts held with the Hellenic Bank Ltd discloses that Abridge received two deposits as disclosed below.

From other companies

14/05/97	\$882,485.00	JP Jugoimport	FI025945	Hellenic
18/12/97	\$759,849.24	Crandor Investments	FI026022	Hellenic

75. My analysis of transactions revealed that Crandor Investment Management Ltd. ("Crandor") had two bank accounts with the European Popular Bank in Greece. On two occasions Browncourt received a total of USD \$5 million from these accounts and on five occasions Browncourt sent a total of USD \$11.8 million to these accounts. As disclosed below, on 11 December 1997 a deposit of USD \$1.6 million was sent from Crandor's bank account with the European Popular Bank, Greece account and deposited in the Neocom Trading bank account. In my opinion, these transactions strongly indicate that Crandor is another front company that was operated by BB COBU.

76. On 14th May 1997 JP Jugoimport ("Yugoimport") SDPR in Belgrade transferred USD 882.485 from an account with Anglo-Yugoslav Bank in London⁷⁹ (a subsidiary of Beogradska Banka A.D. in Belgrade). On 21st May 1997 Abridge Trading Ltd. transferred USD 706.500⁸⁰ to an account held by ELOP. The transfer instruction for the transfer of the amount to ELOP, signed by Mr. Rajh on 18th May 1997,⁸¹ refers to the incoming amount of USD 882.485. It is my opinion that the funds for the transfer to ELOP originated from JP Jugoimport and that the difference in the two amounts is due to the commission charged by Abridge on the deal.

77. To try to determine who owns Yugoimport, I analysed a web site stating to be for the company Yugoimport SDPR. This site⁸² disclosed that Yugoimport SDPR is situated in Belgrade and its primary purpose is the importation of armament and defence equipment, including infantry weapons, anti-tank

⁷⁹ FI025945

⁸⁰ FI025947

⁸¹ FI025949

⁸² Printout of the web-site of Yugoimport SDPR, located in attachments to Part B.

weapons, mortars, anti-aircraft weapons and optical devices and fire control systems.

Debit (Payment) Transaction

78. My analysis discloses that during the period December 1996 - March 1999 Abridge Trading Ltd. paid, inter alia, a total of USD 4,583,436,30 from its account with Hellenic bank in the Republic of Cyprus to the accounts of the companies listed below.

Date	Amount	To	Reference	Bank	Comment
09/12/96	\$127,500.00	ELOP, Israel	FI025925	Hellenic	
18/04/97	\$1,227,638.00	AM General Corporation, U.S.A.	FI025892-94, 99, FI025907-9	Hellenic	Purchase 20 hummer vehicles
21/05/97	\$706,500.00	ELOP, Israel	FI025947, 9	Hellenic	
02/01/98	\$344,257.00	ELOP, Israel	FI026034-38	Hellenic	Delivery Belgrade
27/01/98	\$127,500.00	ELOP, Israel	FI026028	Hellenic	
29/01/98	\$52,750.00	Afid SPE Ltd, Israel	FI026030	Hellenic	Payment for goggles advance
27/02/98	\$64,275.00	Afid SPE Ltd, Israel	FI026047	Hellenic	Payment for goggles advance
02/04/98	\$117,855.00	ELOP, Israel	FI026067	Hellenic	
18/05/98	\$60,000.00	ELOP, Israel	FI026088	Hellenic	
05/06/98	\$154,785.30	Bell Helicopters, Netherlands	FI026132-35*	Hellenic	
23/06/98	\$140,000.00	Noga Lite Ltd, Israel	FI026228-41	Hellenic	20 pocket scope and 20D/N units
25/06/98	\$70,500.00	ELOP, Israel	FI026103	Hellenic	
21/09/98	\$43,200.00	Noga Lite Ltd, Israel	FI025801	Hellenic	
14/10/98	\$38,976.00	Afid SPE Ltd, Israel	FI025797	Hellenic	
21/10/98	\$48,000.00	ELOP, Israel	FI025787	Hellenic	
02/12/98	\$34,500.00	ELOP, Israel	FI025774	Hellenic	

18/12/98	\$795,000.00	Aerodromos Aviation Ltd, Cyprus	FI025781	Hellenic
29/12/98	\$78,000.00	ELOP, Israel	FI025680	Hellenic
29/12/98	\$50,000.00	ELOP, Israel	FI025686	Hellenic
14/01/99	\$219,000.00	ELOP, Israel	FI025693	Hellenic
26/01/99	\$24,960.00	M.D.T. Protective industries, Israel	FI025738	Hellenic
17/02/99	\$38,240.00	M.D.T. Protective industries, Israel	FI025759	Hellenic
18/03/99	\$20,000.00	M.D.T. Protective industries, Israel	FI025730	Hellenic

* Documents concerning documentary credit

79. To try to determine the purpose of these transactions, I have done an Internet search on the three companies: ELOP, Noga Lite and M.D.T. Protective Industries, all three companies are situated in Israel. As disclosed above, these companies received transfers from the Abridge bank account with the Hellenic bank. The documentation from the identified Web pages of these companies, discloses that these companies are involved on the following businesses:

Elop - Electro Optics Industries (a subsidiary of Elbit Systems, Ltd.)⁸³.

"As an international leading developer and manufacturer of electro-optical systems, ELOP continues to focus on creating optimal solutions for the battlefield of the future. Building on its six decades of experience, ELOP currently develops and produces diverse systems to enhance the fighting capabilities of armed forces around the world in order to meet the challenge of the modern battlefield..... it remains at the forefront of development of Thermal Imaging Systems, Lasers, Displays, Armored vehicle upgrades and systems, Optronic Stabilized Payloads, Airborne Reconnaissance Space Application Systems, and E.O. Countermeasures."

M.D.T. Protective Industries Ltd⁸⁴.

"M.D.T. is one of the leading companies in armoring vehicles all around the world. One of the major vehicles that it manufactures is the Landrover Defender. ... M.D.T. has introduced an extremely advanced new engineering

⁸³ R13(aw) Copy of Web-Site information for Elop - Electro Optics Industries (a subsidiary of Elbit Systems, Ltd.).

⁸⁴ R13(ax) Copy of Web-Site information for M.D.T. Protective Industries Ltd.

technique and coupled them with new sophisticated lightweight composite materials - All these factors have created [a] unique approach for armouring vehicles.

Noga Lite Ltd. According to the web-site⁸⁵:

"Core business: Night vision equipment." Overview: NOGA LITE LTD., a well-established electro-optical expert, subsidiary of Orilil, is specializing in the development, manufacturing and marketing of night vision technologies and products. NOGA LITE systems are designed for military, security, commercial and private applications. The company is ISO 9001 qualified and its products meet the highest relevant military standards.

80. In addition, my analysis of documents related to transfers from the Cypriot bank accounts of Abridge Trading Ltd. also reveals that transfers of funds occurred to two other Israeli companies involved in the manufacture and/or sale of equipment that could be used for military purposes. According to the web-site of Radom Aviation Systems Ltd.⁸⁶:

Radom Aviation Systems Ltd "is a major integrator of Military and Civil aircraft, as well as manned and unmanned platforms. Radom provides tailored solutions to customer requirements for helicopters upgrading and modification". It "took part in various helicopter upgrading and modification projects, and aircraft upgrade projects".

81. Moreover, the web-site of International Technologies Lasers Limited (ITL) provides⁸⁷:

"a leading high-tech Electro-Optics company, (that) develops and manufactures a wide range of advanced and innovative products and systems. Today ITL's products have become standard with customers such as the Israel Defense Forces, the US Marine Corps, the US Army and NATO member countries. ITL's high level of involvement with military forces around the world, provides the company with unique ability to accumulate knowledge and experience gained in the field under simulated and real battle conditions." This company is a subsidiary of Clal Electronic Industries, whose shares are traded on the Tel-Aviv stock exchange."

82. My analysis reveals that the largest payment from the Abridge account with Hellenic bank is to the company AM General Corporation in the United States. This is a transfer of USD 1.227.638 and is for the procurement of 20 "hummer

⁸⁵ R13(ay) Copy of Web-Site information for Noga Lite Ltd

⁸⁶ R13(az) Copy of Web-Site information for Radom Aviation Systems Ltd.

⁸⁷ R13 (bb) Copy of Web-Site information for International Technologies Lasers Limited (ITL)

vehicles". Also disclosed are payments concerning a letter of credit involving the amount of USD 154.785,00 for Bell Helicopters in the Netherlands. In a statement that I reviewed, Mr. Rajh confirmed that this amount was for spare parts for the maintenance of Bell helicopters⁸⁸.

Neocom Trading Limited

83. Neocom was permitted to operate as an international business in Cyprus on 9 October 1997. The nominated beneficial owner of this business was Borislav Milošević, of Josifa Marinkovica 2, Belgrade, Yugoslavia. On 1 September 1998 a request to change the nominated beneficial owner of Neocom to Mr Svetozar Milošević of Josifa Marinjkovica 2, Belgrade, Yugoslavia, holder of Yugoslavia diplomatic passport 017962 and born on 11 April 1978 was made. Neocom opened three accounts with the Beogradska Bank Cyprus Offshore Banking Unit (BB COBU), -a current account, a deposit account and a letter of credit temporary account.

Credits (Deposits) into Neocom's Bank Account

84. My analysis of the Neocom accounts reveals that Neocom received the following deposits:

Date	Amount	From	Reference
10/12/97	USD \$1,000,000	Antexol	FI019145, FI019188-FI01 9189
11/12/97	USD \$1,600,000	Crandor Investments	FI019145, FI019229-FI01 9230
20/2/98	USD \$420,000	Browncourt	FI019146
30/09/98	USD \$339,078	Antexol	FI019146, FI019220-9221
Total	USD \$3,359,078		

⁸⁸ FI043016

Debit (Payment) Transactions from Neocom's Bank Accounts

85. My analysis discloses that in the period December 1996 - March 1999 Neocom Trading paid a total of USD \$2,657,630.00 from its accounts with BB COBU in the Republic of Cyprus to the accounts of the companies listed below.

Date	Amount	To	Reference
12/01/98	\$86,100.00	Ukrinmash, Kiev	FI019146, FI019191-9193
27/01/98	\$1,409,000	Ukrspetsexport, Kiev	FI019146, FI019176
27/01/98	\$147,530	Ukrinmash, Kiev	FI019146, FI019169
06/02/98	\$100,000	V.E.	FI019146, FI019199-9202
09/02/98	\$415,000	Brassdeum	FI019146, FI019204-9205
17/02/98	\$250,000	Aviatrend Ltd	FI019146, FI019208-9211
24/03/98	\$250,000	Aviatrend Ltd	FI019146 FI019212-9215
Total	\$2,657,630.00		

Description of Neocom Trading transactions:

86. The banking documents that I have reviewed disclose that on 4 December 1997 Neocom applied for 2 letters of credit, one letter of credit was for \$300,000 USD and the other for \$2.3 million USD.⁸⁹ The beneficiary of both these letters of credit was described as Aviatrend Ltd., Moscow, Russia. The goods are described as "as per contract No. 03B/97". The application for these letters of credit is B. Milošević. On 12 January 1998 these two letters of credit were cancelled.

87. On 12 January 1998 Mr. B. Milošević made a further request for two letters of credit.⁹⁰ The beneficiary of one of these letters of credit is Ukrinmash and its bank is stated as the Finance and Credit Banking Corporation, Kiev, Ukraine.

⁸⁹ FI019154-9164

⁹⁰ FI019165-9178

The other beneficiary is Ukrspetsexport and its bank is the Privatbank, Kiev, Ukraine. The amounts of these letters of credit were \$147,432 USD and \$1,409,143.50 USD. The description of the goods in the first letter of credit is “as per contract no. 03B/97, 4/23 – K DD 17/11/97 and letter No 195/98 DD 14/1/98”. The description of goods in the second letter of credit is “2 helicopters MI –17V (serial No. 3532422319632 35324215211434) as per contract No. 03B/97, UCE – 16.1-69K/KE DD 30/10/97 and Letter No 194 DD 14/1/98”. Payment on these two contracts was effected on 27 January 1998.⁹¹

88. In February 1998 Mr. B. Milošević wrote to BB COBU confirming the payments in keeping with contract No 03V/97 dated 27/11/97 and requested that a further payment of \$100,000 USD be made to 47069 of V.E. and the bank is the Diffusion Finance Bank, Nauru.⁹²
89. In February 1998 Borislav Milošević wrote to BB COBU and confirmed that payments totaling USD \$2.35 million had been made and requested that an additional payment of \$415,000 be made to Brassdrum Holding Ltd. to complete the payments.⁹³
90. On 13 February 1998 Borislav Milošević wrote to BB COBU and said that in keeping with payments under contract 03V/97 dated 27 November 1997, an amount of USD \$250,000 needed to be paid to the Aviatrend account with the Compaigne Bancaire Geneve, Geneva.⁹⁴
91. Based on my analysis of these transactions and the documents obtained, in my opinion the Neocom payments described relate to the purchase of two helicopters, with the transaction being organised by Borislav Milošević.
92. This purchase is consistent with the statement made by Mr. Marković referred to above in R8 and the statement made by Slobodan Milošević in R4. Both Mr. Marković and Slobodan Milošević state that the money transferred to

⁹¹ FI019169 and FI019176

⁹² FI019198-9199

⁹³ FI019203-9207

⁹⁴ FI019208-9209

Cyprus was used to buy, among other things, helicopters or military equipment for helicopters, for the RDB. Ms. Borka Vučić, in R9, also states that \$5.8 million DM was paid to Neocom on behalf of the VJ and the MUP.⁹⁵

Aviatrend Limited

93. Aviatrend was incorporated in Gibraltar (ERN: FI01-5057) in 1994⁹⁶. Aviatrend Limited has two shareholders, Mr. Valeri Tchernyi and Mr. Lalexandre Chtchegolev, each holding 250 shares⁹⁷. On 16 October 1996, V. Tchernyi, M.r A. Chtchegolev and Mr. M. Stpeanenko were appointed as directors of Aviatrend⁹⁸.

94. Aviatrend opened an account with the Commercial Bank Neftinvestbank, Sofia, Bulgaria, account number 1100137719 (non resident account), on 10 October 1997⁹⁹. This account was opened by Valeri Semeonvich TCHERNYI, a Russian citizen, born on 23 April 1949¹⁰⁰.

95. Aviatrend opened an account with the Comagnie Bancaire Geneve (CBG), account number 01-562-760, on 12 March 1997¹⁰¹. The signatories to this account are Valeri Tchernyi and Alexandre Chtchegolev¹⁰². The beneficial owner of Aviatrend Ltd is declared to be Valeri Tchernyi, Kominternna Street, No. 4, Moscou, 129344¹⁰³.

Deposits into Aviatrend Bank Accounts:

96. My analysis of Aviatrend’s bank accounts discloses that it received the following deposits:

Date:	Amount :	From:	Aviatrend Bank Reference: Account located In:
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⁹⁵ R9.
⁹⁶ FI01-7464
⁹⁷ FI01-7486-FI01-7487
⁹⁸ FI01-7489
⁹⁹ FI01-5057, FI01-5060-FI01-5064
¹⁰⁰ FI01-5057, FI01-5065-FI01-5066.
¹⁰¹ FI01-7438-FI01-7492
¹⁰² FI01-7440
¹⁰³ FI01-7453

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01/08/97	\$76,095 USD	Browncourt	Hungary	FI00-5574
06/10/97	\$600,000 USD	Antexol	Switzerland	FI00-1789 FI01-7174
07/11/97	\$250,169 USD	Browncourt	Switzerland	FI00-5580 FI01-7174
03/12/97	\$132,252 USD	Lamoral	Hungary	FI00-4046
16/02/98	\$250,000 USD	Neocom	Switzerland	FI01-7175
24/03/98	\$9,030 USD	Lamoral	Switzerland	FI01-7175
24/03/98	\$250,000 USD	Neocom	Switzerland	FI01-7175
15/06/98	\$299,980 USD	Lamoral	Switzerland	FI01-7176
20/07/98	\$17,980 USD	Lamoral	Switzerland	FI01-7178
31/07/98	\$42,162 USD	Browncourt	Switzerland	FI00-5514 FI00-7178
05/10/98	\$20,174 USD	Lamoral	Switzerland	FI00-4065 FI01-7180
20/01/99	\$1,200,000 USD	Vericon	Bulgaria	FI01-5081 FI00-1567
04/02/99	\$333,185 USD	Lamoral	Bulgaria	FI00-4222 FI01-5093
Total:	\$3,481,027			

97. I have attempted to analyse the Aviatrend bank account documentation supplied to discover what the proceeds that were sent to Aviatrend were used for. My analysis has revealed that the Aviatrend accounts that the OTP have the records for are part of a complex banking network and that funds received in the initial Aviatrend accounts are routed to other Aviatrend and various front company accounts located in third countries, including Gibraltar and Nauru. Based on the documents supplied, it is not possible for me to comment on what these payments were used for. Many additional bank accounts need to be examined before I could present an opinion on what the money transferred to Aviatrend and disclosed above was used for.

Nitrako Inc.

98. Nitrako Inc. is a Panamanian company and was incorporated on 5 May 1993¹⁰⁴. The Director of the company is Mr. Yan Shukun¹⁰⁵. Mr. Yan Shukun is a Chinese National, born on 8 January 1954¹⁰⁶. On 3 February 1994 Mr. Shukun issued a Power of Attorney (backdated to 24 November 1993) to Mr. Momcilo Katanić (born 30 December 1947) “to open and close accounts and to withdraw and receive funds”¹⁰⁷. Mr. Momcilo Katanić is a Yugoslavian national¹⁰⁸.
99. On 3 November 1993, Mr. Yen Shukun issued an authorisation to Ms Ljiljana Katanic and Mr. Zeljko Miksic to operate various USD, DM and ITL denominated bank accounts that Nitrako Inc. had opened with the Bank Fur Arbeit und Wirschaft¹⁰⁹.

Deposits into Nitrako Bank Accounts:

100. My analysis of Nitrako’s bank accounts discloses that it received the following deposits:

Date:	Amount :	From:	Aviatrend Bank Reference: Account located	
21/06/95	\$697,780 DEM	Vantervest	Austria	FI00-4988
27/05/98	\$500,282 DEM	Browncourt	Austria	FI00-6844
22/06/98	\$300,000 DEM	Lamoral	Austria	FI00-4612
12/10/98	\$182,759 USD	Lamoral	Austria	FI00-4064
23/11/98	\$2,280,285 DEM	Browncourt	Austria	FI00-7107
Total	3,778,347 Dem \$182,759 USD			

101. The OTP has not obtained sufficient records relating to the banking transactions conducted by Nitrako Inc. for me to discover what the proceeds that were sent

¹⁰⁴ FI00-8321-FI00-8340.

¹⁰⁵ FI00-8337

¹⁰⁶ FI00-8341-FI00-8344

¹⁰⁷ FI00-8347-FI00-8348

¹⁰⁸ FI00-8349-FI00-8352.

to Nitrako were used for. My analysis of the documents supplied reveals that Nitrako apparently only forwarded the funds it received in its bank account to other companies. The transaction documents that I have analysed suggest that these payments were payment for goods and services, although I can not ascertain the exact nature of the goods or service supplied. As an example, there are at least 10 payments from Nitrako accounts to the German company, Heimann Systems GMBH, of Carl V. Linde Str. 14, D-I45665197 Wiesbaden, Germany. I have reviewed the internet site for Heimann Systems GMBH, and this site discloses that:

“Since 1993, Heimann System is part of the Rheinmetall Group, an international technology business concern. Activities of the concern concentrate on international and national security. Heimann Systems plays the key role in the business division for security technology within this group.”

Microtri Handels GmbH

102. Microtri Handels GmbH is an Austrian company. It has two Directors, Lejla Uzunovic-Kapor and Rajko Maric¹¹⁰. Microtri has a bank account with the Bank Austria, account number 230-112426/00 and the signatories to the account are also Lejla Uzunovic-Kapor and Rajko Maric¹¹¹.
103. On 4 February 1998 Browncourt transferred USD \$499,500 from its Cypriot Account to Microtri Handels GMBH A/C 230-112-426/00 and cited the reference: “Inv. No. 98/006 DD 2/2/98”¹¹².
104. Ms. Borka Vučić has said that a total of DEM 900,000 was paid to Microtri Holdings. The transactions above are consistent with the statement of Ms. Vučić.

Diagram

105. I have constructed a diagram, R15, that generally depicts the financial activities and relationships that I have described in this report. The amounts mentioned in this diagram are the amounts described by Ms. Vučić in her interview.

¹⁰⁹ FI00-8314

¹¹⁰ FI02-3916-FI02-3917

¹¹¹ FI02-3926-FI02-3927.

¹¹² FI00-5485

VII. Opinion

106. In my opinion the banking documents that I have reviewed and described in Part B and which are produced in the report are forensically consistent with the aspects of the financial structure described in Part A of the report. In particular, the banking documents support the existence of the part of the structure that was designed and implemented to finance and support the activities of the MUP, the VJ, weapons factories and other activities of the FRY and the Republic of Serbia during the first half of 1999, including police and military units that were active in the Kosovo armed conflict.
107. Part A of the report describes how funds, mainly in foreign currency, were provided by the Federal Customs Administration, under the control of Mihalj Kertes and at the direction of Slobodan Milošević, to finance the procurement of salaries, equipment and supplies for, inter alia, the VJ and the MUP. During the second half of 1998, Slobodan Milošević directed Mr. Kertes to provide funds for the needs of the RDB. Accordingly, Mr. Kertes provided the RDB with funds from the Federal Customs Administration approximately on a weekly basis. Radomir Marković, the former head of the RDB, confirmed that Slobodan Milošević directed Mr. Kertes to provide funds for the purchase of equipment for the RDB and that all MUP units were sent to Kosovo.
108. The banking and company records that I have analysed disclose that trading companies were established in Cyprus, some without the knowledge of persons named as their beneficial directors, in order to facilitate the operation of this financial structure. A number of these "front" companies held accounts with the Cyprus Popular Bank and the European Popular Bank and BB COBU. Payments were made from the accounts of these "front" companies to other companies, which in turn, transferred funds to businesses located in Israel, Russia and the United States that appear to be involved in the manufacture and sale of equipment that can be used for military operations. In

addition, the records that I reviewed indicated that personal connections played a vital role in implementing this financial structure.

109. From my analysis I believe that at least DEM 1.032.207.200 (one billion thirty-two million two hundred and seven thousand two hundred Deutsche marks), USD 80.038.242, CHF 63.809.060, ATS 390.241.674 and the other currencies as specified in this report of cash were deposited into the accounts of the eight Cypriot companies in the period July 1992 - June 2000. I can further state that out of these total amounts, the amount of DEM 508.569.995 in cash was deposited into a single bank account of Browncourt Enterprises Ltd. during the period January 1998 - March 1999. Due to the nature of the deposits into the bank accounts of the eight Cypriot companies, mainly large deposits of foreign cash, it would be impossible with absolute certainty to state that these funds all originated from the Federal Customs Administration of the FRY. However, based on the documentation referred in this report, it is my opinion that the only logical source for a substantial part of these funds was the Federal Customs Administration, under the control of Mihalj Kertes and at the direction of Slobodan Milošević.
110. The financial structure created was large and complex. The structure operated in the FRY as well as in both Greece and Cyprus, and a large number of bank accounts were set up with the Cyprus Popular Bank, the European Popular Bank and BB COBU. In addition to the large deposits of cash into the bank accounts as described in the report, the bank statements also disclose many transfers of funds into the bank accounts maintained. Similarly, there are many thousands of debit (withdrawal) transactions on these accounts. My preliminary review of some of these debit transactions reveals that accounts held by companies and individuals located in more than 50 countries received funds from the eight Cypriot companies. Large transfers were made to bank accounts domiciled in Greece, Germany, Austria, Cyprus, Switzerland, Luxembourg, Liechtenstein, Singapore, Monaco, Guernsey, Isle of Man and Jersey. In my experience, it is very difficult to obtain the banking documentation for the accounts in some of these locations. However, from the debit transactions that I *have* been able to trace, I have confirmed that all of the companies stated by Ms. Borka Vučić to have received funds to pay for

equipment for the MUP and VJ, namely Neocom, Microtri, Aviatrend, Nitrako, C.C. Chidiac and Abridge Trading Ltd., have received funds from one or more of the eight Cypriot companies.

111. It has been possible for me to trace only a small percentage of the debit transactions. Apart from the transactions detailed in this report, I am not able to conclude what happened to the rest of the money that was deposited and transferred into the bank accounts held in the name of the eight Cypriot companies. In my career, I have never encountered or heard of an offshore finance structure this large and intricate. I consider that to conduct an overall and comprehensive analysis of what happened to all of the funds that was deposited or transferred into the bank accounts of the eight Cypriot companies would almost be impossible and would be an extremely resource intensive exercise.