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**OFFICE OF INTERNAL OVERSIGHT SERVICES
PROCUREMENT TASK FORCE**

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**REPORT ON VOLGA-DNEPR
AIRLINES AND VOLGA-DNEPR
AIRLINES (IRELAND) LTD.**

Report no. PTF-R006/07

Case no. PTF/001/07

STRICTLY CONFIDENTIAL

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28 June 2007

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I. INTRODUCTION

1. The Procurement Task Force (“the Task Force”) was created on 12 January 2006 to address all procurement matters referred to the Office of Internal Oversight Services (“OIOS”). The creation of the Task Force was the result of perceived problems in procurement identified by the Independent Inquiry Committee into the Oil-for-Food Programme (“IIC”), and the arrest and conviction of Mr. Alexander Yakovlev, a former United Nations Procurement Officer.

2. Under its Terms of Reference, the Task Force operates as part of the OIOS, and reports directly to the Under-Secretary-General for the OIOS.¹ The remit of the Task Force is to investigate all procurement cases, including all matters involving procurement exercises, procurement staff, and vendors doing business with the United Nations.² The Task Force’s investigations have focused upon a number of procurement cases, including cases involving companies doing business with the Organisation. Some of these matters are particularly complex and span significant periods of time.

3. The Task Force has previously issued two reports directly addressing Mr. Yakovlev’s activities.³ Most significantly, on 2 May 2007, the Task Force issued its Interim Report on matters concerning Mr. Yakovlev and entities and individuals associated with him.⁴

4. As was discussed in these reports, Mr. Yakovlev’s assistance to certain vendors included, *inter alia*, improperly disclosing confidential United Nations documents and information; improperly assisting selected United Nations vendors in preparing their contract proposals; tampering with the results of the financial evaluations; adjusting contract proposals after the official submission to ensure that the contract award would be steered towards a particular company; and favoring selected companies during the execution of their contracts to the detriment of the Organisation. In return, these vendors paid Mr. Yakovlev sums of money which were often paid into secret off-shore bank accounts in the names of entities established in furtherance of the scheme. Two of these accounts were established in the names of Moxycy Ltd. (“Moxycy”) and Nikal Ltd. (“Nikal”).

5. The Interim Report specifically focused on the financial assets derived by Mr. Yakovlev through his participation in fraudulent schemes executed with various vendors and vendor intermediaries doing business with the Organisation. The Interim Report set forth relevant evidence—including information regarding various bank accounts

¹ Terms of Reference of the Procurement Task Force (12 January 2006).

² *Id.*

³ Procurement Task Force, Report on Eurest Support Services (Cyprus) International, IHC Services Inc., and Certain United Nations Staff Members, Report PTF-R010/06 (7 December 2006); Procurement Task Force, Interim Report on Matters Concerning Former United Nations Staff Member Mr. Alexander Yakovlev and Associated Vendors, Report PTF-R002/07 (2 May 2007) (“Interim Report on Alexander Yakovlev”).

⁴ *Id.*

associated with Mr. Yakovlev—for consideration by the Organisation in its pursuit to recover the proceeds of Mr. Yakovlev’s unlawful activities.

6. The purpose of this Report is to address the allegations concerning Volga-Dnepr Airlines and Volga-Dnepr Airlines (Ireland) Ltd., two United Nations vendors with whom Mr. Yakovlev had allegedly engaged in corrupt activities in connection with a number of United Nations contracts.

II. APPLICABLE UNITED NATIONS STAFF REGULATIONS AND RULES

7. The following provisions of the **Staff Regulations of the United Nations** (“the Staff Regulations”) are relevant:

(i) **Regulation 1.2(b)**: “Staff members shall uphold the highest standards of efficiency, competence and integrity. The concept of integrity includes, but is not limited to, probity, impartiality, fairness, honesty and truthfulness in all matters affecting their work and status.”⁵

(ii) **Regulation 1.2(e)**: “By accepting appointment, staff members pledge themselves to discharge their functions and regulate their conduct with the interests of the Organization only in view. Loyalty to the aims, principles and purposes of the United Nations, as set forth in its Charter, is a fundamental obligation of all staff members by virtue of their status as international civil servants.”⁶

(iii) **Regulation 1.2(f)**: “[Staff members] shall conduct themselves at all times in a manner befitting their status as international civil servants and shall not engage in any activity that is incompatible with the proper discharge of the duties with the United Nations. They shall avoid any action, and, in particular, any kind of public pronouncement that may adversely reflect on their status, or on the integrity, independence and impartiality that are required by that status.”⁷

(iv) **Regulation 1.2(g)**: “Staff members shall not use their office or knowledge gained from their official functions for private gain, financial or otherwise, or for the private gain of any third party, including family, friends and those they favour.”⁸

(v) **Regulation 1.2(i)**: “Staff members shall exercise the utmost discretion with regard to all matters of official business. They shall not communicate to any Government, entity, person or any other source any information known to them by reason of their official position that they know or ought to have known has not been made public, except as appropriate in the normal course of their duties or by authorization of the Secretary-General.”⁹

⁵ ST/SGB/2007/4, reg. 1.2(b) (1 January 2007); ST/SGB/1999/5, reg. 1.2(b) (3 June 1999).

⁶ ST/SGB/2007/4, reg. 1.2(e) (1 January 2007); ST/SGB/1999/5, reg. 1.2(e) (3 June 1999).

⁷ ST/SGB/2007/4, reg. 1.2(f) (1 January 2007); ST/SGB/1999/5, reg. 1.2(f) (3 June 1999).

⁸ ST/SGB/2007/4, reg. 1.2(g) (1 January 2007); ST/SGB/1999/5, reg. 1.2(g) (3 June 1999).

⁹ ST/SGB/2007/4, reg. 1.2(i) (1 January 2007); ST/SGB/1999/5, reg. 1.2(i) (3 June 1999).

(vi) **Regulation 1.2(I)**: “No staff member shall accept any honour, decoration, favour, gift or remuneration from any non-governmental source without first obtaining the approval of the Secretary-General.”¹⁰

8. The following provision of the **Staff Rules of the United Nations** is relevant:

(i) **Rule 112.3**: “Any staff member may be required to reimburse the United Nations either partially or in full for any financial loss suffered by the United Nations as a result of the staff member’s gross negligence or of his or her having violated any regulation, rule or administrative instruction.”¹¹

9. The following provisions of the **Financial Regulations and Rules of the United Nations** are relevant:

(i) **Regulation 5.12**: “The following general principles shall be given due consideration when exercising the procurement functions of the United Nations:

- (a) Best value for money;
- (b) Fairness, integrity and transparency;
- (c) Effective international competition;
- (d) The interest of the United Nations.”¹²

(ii) **Rule 105.14**: “[P]rocurement contracts shall be awarded on the basis of effective competition.”¹³

10. The following provisions of the **United Nations Procurement Manual** are relevant:¹⁴

(i) **Section 4.1.5(4)(a)**: “UN staff shall not allow any Vendor(s) access to information on a particular acquisition before such information is available to the business community at large.”¹⁵

(ii) **Section 4.2(1)**: “It is of overriding importance that the staff member acting in an official procurement capacity should not be placed in a position where their actions may constitute or could be reasonably perceived as reflecting favourable treatment to an individual or entity by accepting offers or gifts and hospitality or other similar considerations.”¹⁶

¹⁰ ST/SGB/2007/4, reg. 1.2(1) (1 January 2007); ST/SGB/1999/5, reg. 1.2(1) (3 June 1999).

¹¹ ST/SGB/2005/1, rule 112.3 (1 January 2005).

¹² ST/SGB/2003/07, reg. 5.12 (9 May 2003).

¹³ *Id.*, rule 105.14.

¹⁴ United Nations Procurement Manual, Rev. 3 (August 2006) (“2006 Procurement Manual”); United Nations Procurement Manual Rev. 2 (January 2004) (“2004 Procurement Manual”); United Nations Procurement Manual (31 March 1998) (“1998 Procurement Manual”).

¹⁵ 2006 Procurement Manual, sec. 4.1.5(4)(a); 2004 Procurement Manual, sec. 4.1.5(4)(a); 1998 Procurement Manual, sec. 7.06.01.

¹⁶ 2006 Procurement Manual, sec. 4.2(1); 2004 Procurement Manual, sec. 4.2.1(1); 1998 Procurement Manual, secs. 3.04.05, 7.06.01, 8.03.04.

(iii) **Section 4.2(2)**: “It is inconsistent that a Procurement Officer . . . accepts any gift from any outside source regardless of the value and regardless of whether the outside source is or is not soliciting business with the United Nations. All staff members involved in procurement shall decline offers of gifts.”¹⁷

(iv) **Section 4.3(2)(a)**: “‘Bribery’ means the act of unduly offering, giving, receiving or soliciting anything of value to influence the process of procuring goods or services, or executing contracts.”¹⁸

(v) **Section 4.3(2)(c)**: “‘Fraud’ means the misrepresentation of information or facts for the purpose of influencing the process of procuring goods or services, or executing contracts, to the detriment of the UN or other participants.”¹⁹

(vi) **Section 4.3(3)(b)**: “The UN . . . [w]ill declare a firm ineligible, either indefinitely or for a stated period of time, to become a UN registered Vendor if it at any time determines that the firm has engaged in corrupt practices in competing for or in executing a UN Contract.”²⁰

(vii) **Section 4.3(3)(c)**: “The UN . . . [w]ill cancel or terminate a contract if it determines that a Vendor has engaged in corrupt practices in competing for or in executing a UN Contract.”²¹

(viii) **Section 7.12.2(1)(a)**: “The criteria for suspension or removal from the Vendor Database . . . [includes] [f]ailure to perform in accordance with the terms and conditions of one or more contract[s] . . . and [a]busive, unethical or unprofessional conduct, including corrupt practices and submission of false information.”²²

11. The following provisions of the **United Nations General Conditions of Contract** are relevant:

(i) **Article 2.0**: “The Contractor shall refrain from any action that may adversely affect the United Nations and shall fulfill its commitments with the fullest regard to the interests of the United Nations.”²³

(ii) **Article 6.0**: “The Contractor warrants that no official of the United Nations has received or will be offered by the Contractor any direct or indirect benefit

¹⁷ 2006 Procurement Manual, sec. 4.2(2); 2004 Procurement Manual, sec. 4.2.1(2); 1998 Procurement Manual, secs. 3.04.05, 8.03.04.

¹⁸ 2006 Procurement Manual, sec. 4.3(2)(a); 2004 Procurement Manual, sec. 4.2.5(2)(i); 1998 Procurement Manual, secs. 5.12.01-5.12.02.

¹⁹ 2006 Procurement Manual, sec. 4.3(2)(c); 2004 Procurement Manual, sec. 4.2.5(2)(iii); 1998 Procurement Manual, secs. 5.12.01-5.12.02.

²⁰ 2006 Procurement Manual, sec. 4.3(3)(b); 2004 Procurement Manual, sec. 4.2.5(3)(ii); 1998 Procurement Manual, secs. 5.12.01-5.12.02.

²¹ 2006 Procurement Manual, sec. 4.3(3)(c); 2004 Procurement Manual, sec. 4.2.5(3)(iii); 1998 Procurement Manual, secs. 5.12.01-5.12.02.

²² 2006 Procurement Manual, sec. 7.12.2(1)(a); 2004 Procurement Manual, sec. 7.12.2(1)(a)(iv); 1998 Procurement Manual, secs. 5.12.01-5.12.02.

²³ 2006 Procurement Manual, United Nations General Conditions of Contract, art. 2.0; 1998 Procurement Manual, United Nations General Conditions of Contract, art. 2.0.

arising from this Contract or the award thereof. The Contractor agrees that breach of this provision is a breach of an essential term of this Contract.”²⁴

III. RELEVANT CONCEPTS OF CRIMINAL LAW

12. The following well-established common law concepts are applicable to this Report:

(i) **Fraud:** Commonly, fraud is defined as an unlawful scheme to obtain money or property by means of false or fraudulent pretences, representations, or promises. A scheme to defraud is any plan, device, or course of action to obtain money or property by means of false or fraudulent pretences, representations or promises reasonably calculated to deceive persons of average prudence;

(ii) **Bribery:** Commonly, bribery is defined as an act of a public official to corruptly solicit, demand, accept or agree to accept anything of value from any person, in return for being influenced in the performance of any official act or being induced to do or omit to do any act in violation of the official duty of such official;

(iii) **Conspiracy:** Conspiracy is an agreement to do an unlawful act. It is a mutual understanding, either spoken or unspoken, between two or more people to cooperate with each other to accomplish an unlawful act. In this case, it is the agreement to engage in a scheme to improperly obtain sums of money under contracts with the United Nations not properly due and owing to them; and

(iv) **Aiding and Abetting an Offense:** Under the concept of aiding and abetting, the offense is committed by another. In order to aid and abet a crime, it is necessary that individuals involved associate themselves in some way with the crime, and that they participate in the crime by doing some act to help make the crime succeed. Individuals who aid and abet another in committing a criminal offense are equally as culpable as if they committed the offence themselves.

13. If any evidence of bribery or fraud or other criminal offense is revealed during the course of the Task Force’s investigations, a referral to the appropriate prosecutorial agency will be recommended.

IV. METHODOLOGY

14. The Task Force’s investigations discussed in this Report have included interviews with numerous witnesses, including current and former United Nations staff members, representatives of various United Nations vendors, and other individuals with knowledge of the transactions in question.

²⁴ 2006 Procurement Manual, United Nations General Conditions of Contract, art. 6.0. This is a long-standing provision of the General Conditions of Contract. See, e.g., 1998 Procurement Manual, United Nations General Conditions of Contract, art. 4.0. Similar provision is also incorporated in the United Nations General Conditions for Aircraft Charter Agreements. See, e.g., United Nations General Conditions for Aircraft Charter Agreements (undated) (applicable in 2002 and 2007).

15. The Task Force's investigations involved review and analysis of a significant number of documents and extensive examination of electronic media and evidence. The Task Force's review of documentary evidence was complicated by the fact that the United Nations procurement records were often incomplete, missing important documents, and in a state of disarray. The Task Force made significant efforts to locate and obtain all relevant files.

16. The Task Force also engaged in an extensive process of obtaining and examining significant volumes of records and information from various United Nations vendors, including Volga-Dnepr Airlines and Volga-Dnepr Airlines (Ireland) Ltd.

17. The Task Force's investigations of the complex international financial schemes and transactions described in this Report have faced a number of challenges, including the need to obtain and reconstruct relevant data; the lack of compulsory process outside of the United Nations system; limited cooperation from certain parties; and the fact that several key witnesses with knowledge of the events could not be located or would not agree to an interview.

18. The Task Force has been greatly aided in its investigations by the use of electronic forensic tools. These tools have proved instrumental in reconstructing and recovering crucial evidence relevant to the matters addressed in this Report.

V. BACKGROUND

19. Subsequent to Mr. Yakovlev's resignation on 21 June 2005, he was arrested and pleaded guilty to conspiracy, wire fraud, and money-laundering charges in the United States District Court, Southern District of New York.²⁵ The investigations by IIC and the United States Attorney's Office for the Southern District of New York revealed that since 2000, substantial amounts of money had been wired into an account controlled by Mr. Yakovlev, in the name of Moxycy at the Antigua Overseas Bank, Antigua and Barbuda.²⁶ IIC further established that a number of United Nations contractors and Mr. Yakovlev engaged in a continuous course of conduct to provide substantial sums of money to Mr. Yakovlev in connection with his position as a United Nations procurement official.²⁷

20. As part of his guilty plea, Mr. Yakovlev entered into a cooperation agreement with the United States Attorney's Office for the Southern District of New York.²⁸ (See figure below.) Under terms of this agreement, Mr. Yakovlev agreed to forfeit US\$900,000 to the United States government. Mr. Yakovlev was required to offer all

²⁵ Alexander Yakovlev letter to Andrew Toh (21 June 2005). In his letter, Mr. Yakovlev stated: "In view of the latest allegations involving my violating of the applicable Staff Rules and in order to protect integrity, reputation and the interest of the Organization, I hereby respectfully submit my resignation effective immediately". *Id.* Mr. Yakovlev's resignation was accepted the next day. Andrew Toh letter to Alexander Yakovlev (22 June 2005).

²⁶ Independent Inquiry Committee into the Oil-for-Food Programme, "Third Interim Report," p. 65 (8 August 2005). The Third Interim Report is available on-line at <http://www.iic-offp.org/documents.htm>.

²⁷ *Id.*

²⁸ Alexander Yakovlev Cooperation Agreement (8 August 2005).

assistance to the United States authorities in their on-going investigations, which included testifying at the federal criminal trial of Mr. Vladimir Kuznetsov, a former Chairman of the United Nations Advisory Committee and Administrative and Budgetary Questions.²⁹

It is further understood that the defendant agrees to forfeit to the United States, pursuant to Title 18, United States Code, Section 982(a)(7), a sum of money equal to \$900,000 in United States currency, representing property constituting, and derived, directly or indirectly, from gross proceeds traceable to the commission of the wire fraud and money laundering offenses charged in Counts One, Two and Three of the Information, for which the defendant is jointly and severally liable. It is further understood that any forfeiture of the defendant's assets shall not be treated as satisfaction of any fine, restitution cost of imprisonment, or any other penalty the Court may impose upon him in addition to forfeiture.

...

It is understood that the defendant (a) shall truthfully and completely disclose all information with respect to the activities of himself and others concerning all matters

Figure: Alexander Yakovlev Cooperation Agreement, pp. 2-3 (8 August 2005)

21. Mr. Yakovlev testified at the trial of Mr. Kuznetsov on 27 and 28 February 2007.³⁰ Mr. Kuznetsov's trial focused on the money laundering scheme to direct the proceeds of Mr. Yakovlev's criminal activities with certain United Nations vendors. On 7 March 2007, a jury in the United States District Court, Southern District of New York, convicted Mr. Kuznetsov of conspiring to commit money laundering.³¹

22. On 2 May 2007, the Task Force issued its Interim Report on Mr. Yakovlev and associated vendors. As discussed in the Interim Report, the Task Force found that beginning in or about 1993, and continuing until his arrest in 2005, former United Nations Procurement Officer Mr. Yakovlev engaged in a corrupt scheme to solicit and accept sums of money and items of value from a number of United Nations vendors seeking to obtain United Nations contracts in exchange for unlawfully and improperly providing these companies with assistance in the bidding and contract selection process. These agreements were made and implemented by Mr. Yakovlev with the voluntary assistance of Mr. Kuznetsov and entities and individuals associated with them. These payments compromised the integrity of the procurement process, and were made by these vendors and their representatives in direct violation of the United Nations rules and procedures and to the direct detriment of the Organisation.³²

²⁹ *Id.*, pp. 2-3.

³⁰ Unites States v. Vladimir Kuznetsov, trial transcript (SDNY 2007) (hereinafter "Vladimir Kuznetsov trial transcript").

³¹ Interim Report on Alexander Yakovlev, p. 7.

³² *Id.*, pp. 2-5, 24.

VI. OVERVIEW OF THE SCHEME AND PAYMENTS

23. The United Nations Procurement Service (“the Procurement Service”) facilitates the acquisition of various goods and services needed by other departments of the Organisation, including the equipment and services necessary to perform their duties.³³ These goods and services are purchased through competitive bidding exercises conducted by the Procurement Service from the companies registered as United Nations vendors.³⁴

24. Mr. Yakovlev joined the United Nations as a Procurement Officer in August 1985.³⁵ During his twenty-year tenure with the Procurement Service, Mr. Yakovlev was involved in a wide range of procurement exercises involving a variety of goods and services.³⁶ However, in the last years of his service, Mr. Yakovlev primarily dealt with the supplies for the United Nations peacekeeping operations, such as food rations for troops, fuel, lubricants, and security equipment.³⁷

25. During his tenure with the Procurement Service, Mr. Yakovlev also acted as a case Procurement Officer overseeing a significant number of procurement exercises for various United Nations contracts, and was responsible for communicating with vendors on behalf of the Organisation.³⁸ With regard to the procurement exercises to which he was assigned as a case Procurement Officer, Mr. Yakovlev was responsible for preparing and distributing bidding documents and participating in the evaluation of the submitted proposals.³⁹

26. The evaluation of bids submitted by vendors is a multi-step process. It includes the submission of technical and financial evaluations, as well as examination of the company’s compliance with various contract proposal requirements.⁴⁰ Generally, the company offering the lowest cost proposal and the most technically acceptable bid is awarded the contract.⁴¹ However, the procurement rules provide that if any proposal does not conform to the requirements of the technical specifications or proposal guidelines, such proposals can be rejected by the Procurement Service irrespective of the

³³ *Id.*, p. 7; 2006 Procurement Manual. Prior to August 2004, the Procurement Service was known as the Procurement Division. Joan McDonald memorandum to Andrew Toh (27 August 2004) (renaming the Procurement Division into the Procurement Service). However, for purposes of this Report, the Procurement Division and the Procurement Service are referred to collectively as “the Procurement Service.”

³⁴ Financial Rules and Regulations of the United Nations, ST/SGB/2003/07, rule 105.14 (9 May 2003) (“procurement contracts shall be awarded on the basis of effective competition”); 2006 Procurement Manual.

³⁵ Interim Report on Alexander Yakovlev, p. 7.

³⁶ *Id.*

³⁷ *Id.*, pp. 7-8.

³⁸ *Id.*, p. 8.

³⁹ *Id.*

⁴⁰ *Id.*

⁴¹ *Id.*; Financial Rules and Regulations of the United Nations, ST/SGB/2003/07, rules 105.14, 105.15 (9 May 2003).

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fact that the company nevertheless offered the lowest price.⁴² Therefore, it is critically important for companies bidding on United Nations contracts to comply with the bid requirements.

27. As discussed in the Task Force's Interim Report, several major United Nations vendors participated in Mr. Yakovlev's schemes, which generated more than US\$3.5 million.⁴³ The payments to Mr. Yakovlev were made into the bank accounts of Moxycyco, the company Mr. Yakovlev created to facilitate this scheme, and Nikal, a company controlled by Mr. Kuznetsov.⁴⁴ Additionally, the Task Force identified evidence that certain payments were made to Mr. Yakovlev in cash and into his other accounts, particularly in early 1990s.

28. Chart A below contains a summary of the payments made into the accounts of Moxycyco and Nikal.⁴⁵ The number of individual transfers composing each of the total amounts is provided in parentheses preceding each of the total amounts. In the period of February 2000 to July 2005, Moxycyco and Nikal received a total of over US\$3.5 million from various United Nations vendors (both directly and through associated front companies) as well as unidentified entities and persons.

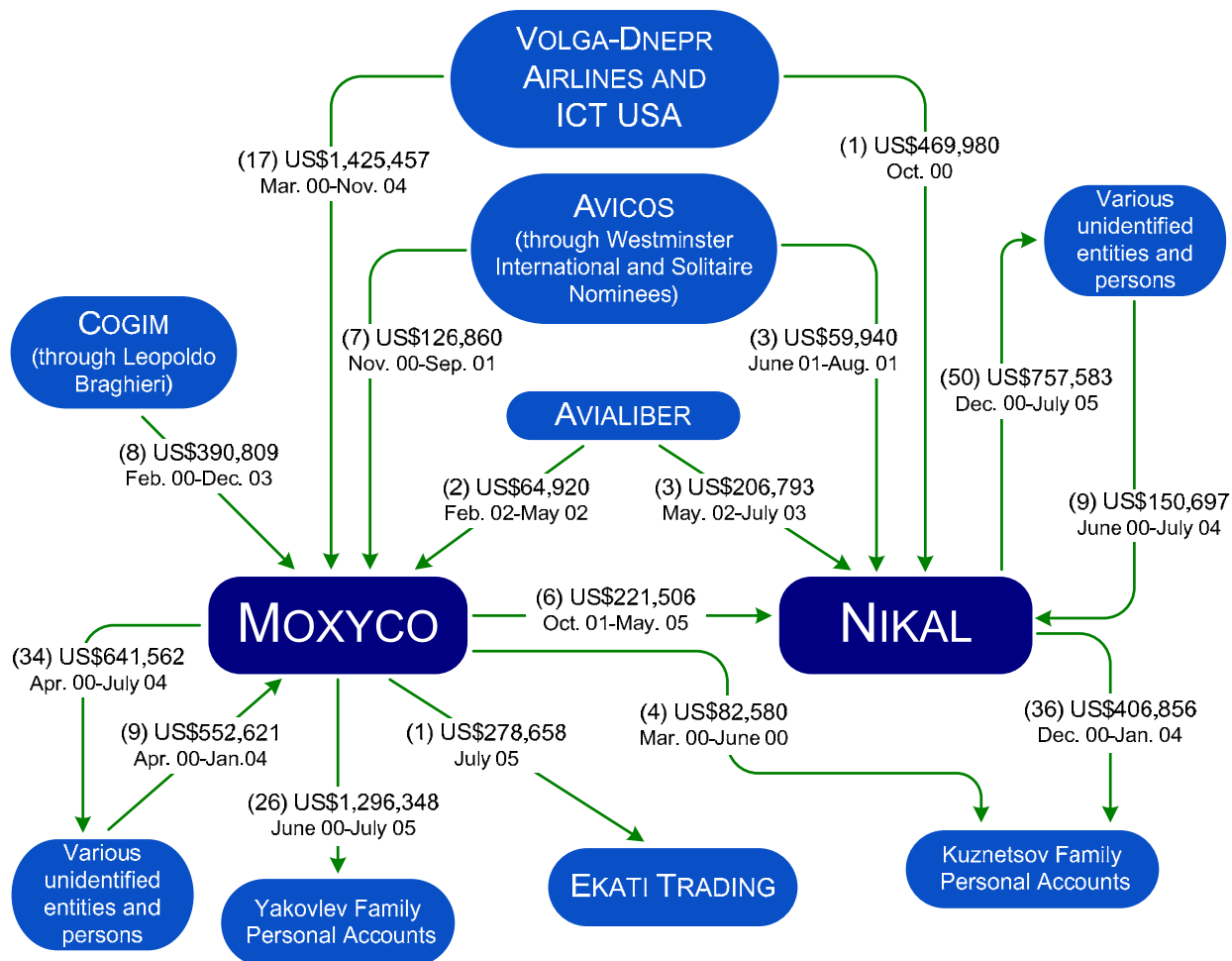
⁴² Interim Report on Alexander Yakovlev, p. 8; 2006 Procurement Manual, rules 9.9.24(3), 10.1.5(1), 10.3.3(1)(c)(ii), 10.3.3.(i)(d)(iii), 10.4(4), 10.5.1(2), 11.4(1), 11.5(1), 11.6.9(1), 11.6.9(2), 11.6.10(1).

⁴³ Interim Report on Alexander Yakovlev, pp. 8-10.

⁴⁴ Mr. Yakovlev's creation of Moxycyco and the opening of its bank account at Antigua Overseas Bank were fully described in the Interim Report on Mr. Yakovlev and associated vendors. *Id.*, pp. 15-17.

⁴⁵ *Id.*, p. 10; Antigua Overseas Bank, Moxycyco account records (February 2000 to July 2005); Antigua Overseas Bank, Nikal account records (June 2000 to July 2005); Confidential source report (23 April 2007). The amounts provided in Chart A are rounded.

Chart A: Overview of Payments to Moxycy and Nikal (2000-2005)



29. Mr. Yakovlev’s corrupt agreements with a number of United Nations vendors were part of his efforts to illegally obtain money and tangible benefits through his activities as a United Nations Procurement Officer. Mr. Yakovlev’s financial motives for his scheme were addressed in the Task Force’s Interim Report.⁴⁶

30. The proceeds of the scheme were subsequently utilized for various purposes, including purchase of real estate.⁴⁷ Mr. Yakovlev also transferred some of the illicit proceeds to his bank accounts in Switzerland, Austria, and Liechtenstein to conceal the financial assets.⁴⁸

31. The Task Force identified fourteen accounts associated with Mr. Yakovlev and Mr. Kuznetsov.⁴⁹ These accounts were located in several countries, including Antigua

⁴⁶ Interim Report on Alexander Yakovlev, pp. 11-12.

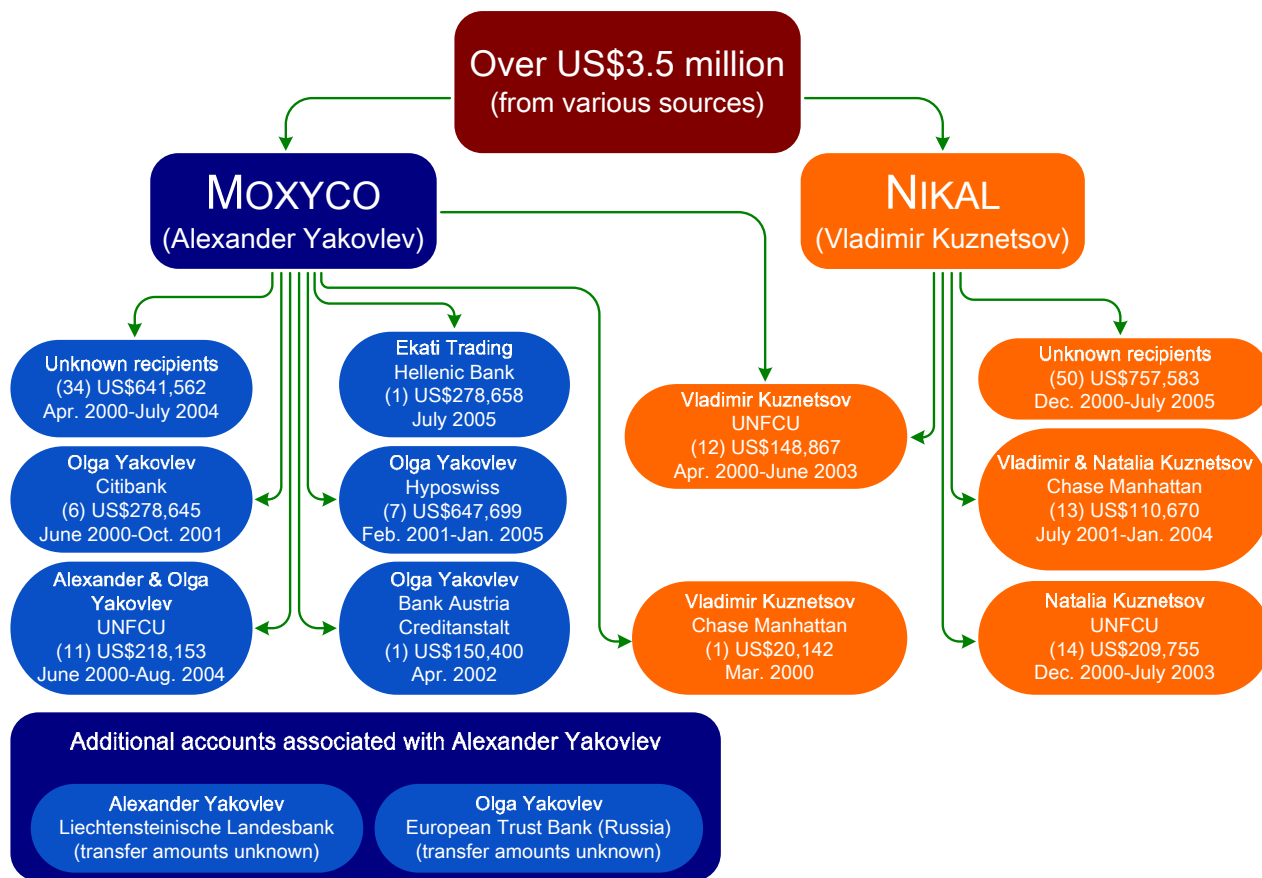
⁴⁷ *Id.*

⁴⁸ *Id.*

⁴⁹ *Id.*, pp. 14-22.

and Barbuda, Austria, the United States, Russia, Cyprus, Switzerland, and Liechtenstein.⁵⁰ Chart B below provides an overview of the accounts associated with Mr. Yakovlev and Mr. Kuznetsov and the distribution of the financial assets accumulated by Moxycy and Nikal.⁵¹ As shown below, Moxycy and Nikal received in excess of US\$3.5 million. The number of known individual transfers composing each of the total amounts in Chart B is provided in parentheses preceding each of the total amounts.

Chart B: Overview of Alexander Yakovlev and Vladimir Kuznetsov Accounts



32. The Task Force has obtained information revealing that at least some of these accounts still contain substantial assets as of the date of this Report. As part of its Interim Report on Mr. Yakovlev and associated vendors, the Task Force recommended that the Organisation seek recovery of the illegal proceeds of Mr. Yakovlev’s schemes.⁵² Based on the Task Force’s recommendation, the Organisation has been taking steps to recover

⁵⁰ *Id.*; Antigua Overseas Bank, Moxycy account records (February 2000 to July 2005); Antigua Overseas Bank, Nikal account records (June 2000 to July 2005). The amounts provided in Chart B are rounded.

⁵¹ Two bank accounts shown in Chart B—the accounts at Liechtensteinische Landesbank and European Trust Bank—were identified by the Task Force through forensic analysis of Mr. Yakovlev’s electronic files. As of the date of this Report, the Task Force does not have information on the exact amounts of transfers into these accounts.

⁵² Interim Report on Alexander Yakovlev, pp. 23, 25-26.

the money corruptly obtained by Mr. Yakovlev and entities and individuals associated with him.

VII. VOLGA-DNEPR AIRLINES AND ALEXANDER YAKOVLEV

A. COMPANY BACKGROUND

33. Volga-Dnepr Airlines (“Volga-Dnepr”) is one of the largest Russian air transportation companies. Volga-Dnepr has over 1,700 employees with subsidiaries in several countries, including Ireland and the United States.⁵³ Volga-Dnepr is also the world’s largest operator of the AN-124-100 aircraft, which is used by the United Nations for outsize and heavy cargo transportation.⁵⁴ According to Volga-Dnepr, its revenue in 2006 reached US\$725 million.⁵⁵ In 2006, Volga-Dnepr launched two joint projects—Ruslan SALIS GmbH and Ruslan International—with Antonov Airlines, also a United Nations vendor.⁵⁶

34. The company is managed by Mr. Alexey Isaikin, Volga-Dnepr’s President.⁵⁷ Mr. Isaikin has been working for Volga-Dnepr since its creation in 1990 and is also a shareholder of Volga-Dnepr.⁵⁸ Volga-Dnepr’s sales and marketing are supervised by Valery Gabriel, Volga-Dnepr’s Commercial Director, who has been working with the company since 1994.⁵⁹ Volga-Dnepr’s work with the United Nations has been managed since 1999 by Mr. Dmitry Grishin, Volga-Dnepr’s sales manager.⁶⁰

35. Volga-Dnepr began its work with the United Nations in early 1990s.⁶¹ In August 2000, Volga-Dnepr also registered its subsidiary in Ireland, Volga-Dnepr Airlines (Ireland) Ltd. (“Volga-Dnepr Ireland”), as a United Nations vendor.⁶² Volga-Dnepr specifically requested the Procurement Service to send copies of invitations to bid to its

⁵³ Volga-Dnepr, “Annual Report 2005,” pp. 2-4, 19; Alexey Isaikin interview (27 April 2007); Valery Gabriel interview (27 April 2007); Alexey Isaikin Letter of Appointment (24 July 2000).

⁵⁴ Volga-Dnepr, “Annual Report 2005,” Introduction; Alexey Isaikin interview (27 April 2007); Staff Member 1 interview (9 May 2007) (identifying Staff Member 1 as a Team Leader with the Procurement Service); Volga-Dnepr, “Annual Report 2005,” p. 25.

⁵⁵ Volga-Dnepr, “Volga-Dnepr Group reports 55% increase in 2006 sales revenues as earnings climb to US\$725 million,” <http://www.volga-dnepr.com/eng/presscentre/releases/?id=4523> (25 April 2007).

⁵⁶ *Id.*; Staff Member 1 interview (9 May 2007); Procurement Service, “List of Approved Vendors by Country of Origin” (29 May 2007) (listing Antonov Airtrack and Antonov Aviation Scientific and Technical Complex as registered United Nations vendors).

⁵⁷ Volga-Dnepr, “Annual Report 2005,” Introduction; Alexey Isaikin interview (27 April 2007).

⁵⁸ *Id.*; Volga-Dnepr, “Annual Report 2005,” Introduction.

⁵⁹ Valery Gabriel interview (27 April 2007).

⁶⁰ Volga-Dnepr, “Annual Report 2005,” p. 9; Dmitry Grishin interview (27 April 2007).

⁶¹ Alexey Isaikin interview (27 April 2007); Valery Gabriel interview (27 April 2007); Volga-Dnepr, “Annual Report 2005,” p. 31 (stating that Volga-Dnepr “has been regularly involved in United Nations’ peacekeeping and humanitarian missions since 1992”).

⁶² Alexey Isaikin letter to Christopher Fathers (24 July 2000); Kiyohiro Mitsui letter to Vladimir Erkhov (14 August 2000); Valery Gabriel letter to Vevine Stamp (21 August 2000).

offices in both Russia and Ireland.⁶³ Throughout their work with the United Nations, Volga-Dnepr and Volga-Dnepr Ireland received over US\$134 million from the United Nations.⁶⁴

36. On 14 March 2007, based on the evidence introduced at the trial of Mr. Kuznetsov, made public by media accounts of the trial, the Vendor Review Committee suspended Volga-Dnepr Ireland and Volga-Dnepr pending completion of the Task Force's investigation.⁶⁵

B. VOLGA-DNEPR INTRODUCTION TO ALEXANDER YAKOVLEV

37. Prior to 1999, Volga-Dnepr's work with the United Nations was carried out primarily with the help of its United Kingdom-based market agent, HeavyLift Cargo Airlines.⁶⁶ In 1999, Volga-Dnepr began looking for a new agent, and on 10 June 1999 signed an agreement with ICT USA Corp. ("ICT"), a company operated by Mr. Igor Terentiev.⁶⁷ ICT is a freight-forwarding company with offices in Moscow and Long Island, New York, and specializing in cargo transportation, particularly between Russia and the United States.⁶⁸ ICT assisted Volga-Dnepr by providing information about the United Nations tenders, helping with preparation and timely submission of Volga-Dnepr's contract proposals, monitoring the on-going contract requirements, and following-up on pending payments for Volga-Dnepr's contracts with the Organisation.⁶⁹

38. In exchange for its services, ICT received a commission of up to 6% of the payments received by Volga-Dnepr.⁷⁰ ICT was paid upon Volga-Dnepr's receipt of payments from the United Nations.⁷¹

39. In early 2000—at the time when Volga-Dnepr was still working with ICT—Mr. Isaikin and Mr. Gabriel visited New York and were introduced to Mr. Yakovlev.⁷²

⁶³ *Id.*

⁶⁴ United Nations Vendor Listing, Volga-Dnepr Airlines (6 March 2006) (showing that Volga-Dnepr was registered as a United Nations vendor on 10 July 1996); Kiyohiro Mitsui letter to Volga-Dnepr Ireland (14 August 2000) (informing the company of its vendor registration application was approved); ProcurePlus Database, Reports on Volga-Dnepr Airlines (Russia) and Volga-Dnepr Airlines (Ireland) (19 March 2007).

⁶⁵ Warren Sach letter to Alexey Isaikin (14 March 2007).

⁶⁶ Valery Gabriel interview (27 April 2007); Alexey Isaikin interview (27 April 2007); Volga-Dnepr, "Annual Report 2005," p. 31; The Wicks Group letter to the Task Force, p. 5 (30 May 2007) (responding to the Task Force's adverse finding letter). The Wicks Group provides Volga-Dnepr with legal representation and has been the Task Force's primary point of contact during the investigation.

⁶⁷ Dmitry Grishin interview (27 April 2007); Alexey Isaikin interview (27 April 2007); Valery Gabriel interview (27 April 2007) (explaining that Mr. Terentiev and ICT were personally known to him through industry contacts and that he first met Mr. Terentiev while at a United Nations function in New York); Agency Agreement between Volga-Dnepr and ICT (10 June 1999) (signed by Mr. Terentiev and Mr. Isaikin).

⁶⁸ Alexander Yakovlev interview (28 September 2005); Valery Gabriel interview (27 April 2007); The Wicks Group letter to the Task Force, p. 5 (30 May 2007).

⁶⁹ *Id.*; Alexey Isaikin interview (27 April 2007); Valery Gabriel interview (27 April 2007).

⁷⁰ *Id.*; Agency Agreement between Volga-Dnepr and ICT (10 June 1999); Alexey Isaikin interview (27 April 2007).

⁷¹ *Id.*

During the course of several subsequent meetings, Mr. Isaikin and Mr. Gabriel told Mr. Yakovlev about Volga-Dnepr's problems with receiving delayed payments from the United Nations, and that Volga-Dnepr looked for assistance in winning United Nations contracts.⁷³

40. According to Mr. Yakovlev, he agreed to provide assistance to ICT with Volga-Dnepr's approval.⁷⁴ Mr. Yakovlev and Mr. Terentiev of ICT divided their responsibilities, so that ICT "would be representing Volga-Dnepr at the bid openings" and be in charge of the "statistics analysis," and Mr. Yakovlev would be in charge of "reviewing Volga's proposals, meaning bids, in order to ensure full compliance" with the United Nations requirements.⁷⁵ The commission payments received by ICT were to be split equally with Mr. Yakovlev and paid to him from ICT's accounts.⁷⁶

41. Notably, Volga-Dnepr officials asserted to the Task Force that, prior to engaging Mr. Yakovlev's services directly, they were not aware of his relationship with ICT. Similarly, Volga-Dnepr officials claimed that they were not aware that ICT made payments to Moxycy and Nikal and that they did not instruct ICT to make such payments.⁷⁷ In the opinion of the Task Force, however, Volga-Dnepr's exact scope of awareness of Mr. Yakovlev's involvement with ICT at that stage is not determinative to the findings in this case, as Volga-Dnepr had subsequently engaged Mr. Yakovlev's services directly.

C. VOLGA-DNEPR AGREEMENT WITH ALEXANDER YAKOVLEV

42. In late 2000, dissatisfied with the fact that he did most of the work but had to split the payments with ICT, Mr. Yakovlev approached Volga-Dnepr, advising high-ranking company officials that ICT was useless and unable to do the job, and suggesting that he be hired directly.⁷⁸

⁷² *Id.*; Valery Gabriel interview (27 April 2007); Vladimir Kuznetsov trial transcript, Alexander Yakovlev testimony, p. 143 (27 February 2007); Alexander Yakovlev interview (16 and 17 August 2005).

⁷³ *Id.*; Alexey Isaikin interview (27 April 2007); Valery Gabriel interview (27 April 2007); Vladimir Kuznetsov trial transcript, Alexander Yakovlev testimony, p. 143 (27 February 2007).

⁷⁴ *Id.*, p. 144 (27 February 2007); Alexander Yakovlev interview (16 and 17 August 2005); Alexander Yakovlev interview (28 September 2005).

⁷⁵ Vladimir Kuznetsov trial transcript, Alexander Yakovlev testimony, p. 145 (27 February 2007); Alexander Yakovlev interview (16 and 17 August 2005).

⁷⁶ Vladimir Kuznetsov trial transcript, Alexander Yakovlev testimony, p. 145 (27 February 2007).

⁷⁷ Alexey Isaikin interview (27 April 2007); Valery Gabriel interview (27 April 2007); Dmitry Grishin interview (27 April 2007).

⁷⁸ Alexey Isaikin interview (27 April 2007); Valery Gabriel interview (27 April 2007); Alexander Yakovlev interview (16 and 17 August 2005); Vladimir Kuznetsov trial transcript, Alexander Yakovlev testimony, p. pp. 145-46 (27 February 2007) (stating that "ICT's role and the responsibilities . . . were not fulfilled and their role was minimal at best"); Alexander Yakovlev interview (28 September 2005) (stating that ICT was very unprofessional and Mr. Yakovlev found himself doing all the work that Volga-Dnepr hired ICT to do); The Wicks Group letter to the Task Force, p. 6 (30 May 2007).

43. On 18 July 2001, after terminating its agreement with ICT, Volga-Dnepr Ireland signed an agreement with Moxycy, Mr. Yakovlev's company.⁷⁹

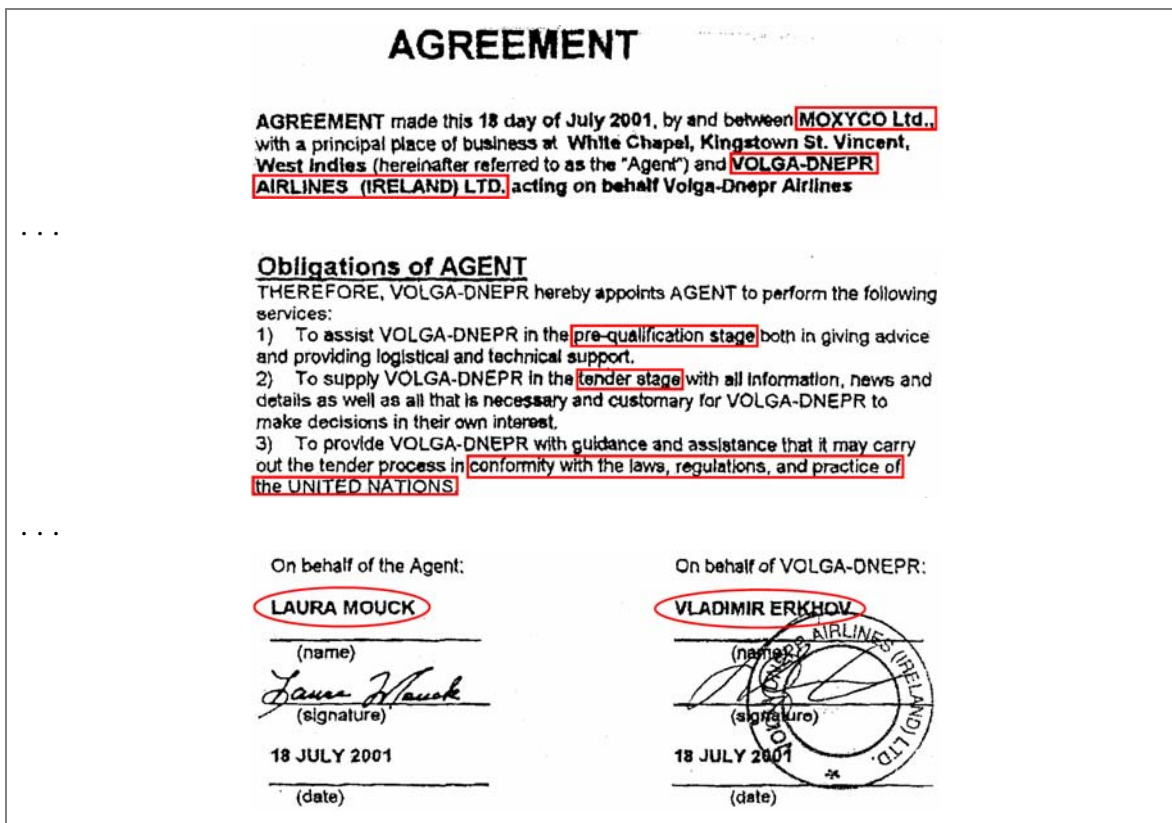


Figure: Agreement between Moxycy and Volga-Dnepr Ireland (18 July 2001)

44. The agreement was signed by Ms. Laura Mouck, on behalf of Moxycy, and Mr. Vladimir Erkhov of Volga-Dnepr's Ireland office.⁸⁰ The agreement was signed with Mr. Isaikin's approval.⁸¹ Ms. Mouck was a purported employee of Maritime Industries, a company Mr. Yakovlev used to establish Moxycy and to open Moxycy's off-shore account.⁸² Ms. Mouck's position was ceremonial; Moxycy's incorporation records were stored in a safe in Mr. Yakovlev's house and Mr. Yakovlev controlled the company's operations.⁸³

45. Volga-Dnepr asserted that there was nothing improper about its agreement with Moxycy, even though it realized that "the other party was a UN employee."⁸⁴ Referring

⁷⁹ Valery Gabriel facsimile to Igor Terentiev (22 February 2001); Alexey Isaikin interview (27 April 2007); Valery Gabriel interview (27 April 2007); Dmitry Grishin interview (27 April 2007); Alexander Yakovlev interview (16 and 17 August 2005); Agreement between Moxycy and Volga-Dnepr Ireland (18 July 2001).

⁸⁰ *Id.*

⁸¹ Alexey Isaikin interview (27 April 2007) (stating that he was aware of the agreement and approved its execution).

⁸² Interim Report on Alexander Yakovlev, pp. 15-17 (discussing Maritime Industries and Ms. Mouck).

⁸³ *Id.*

⁸⁴ Alexey Isaikin interview (27 April 2007); The Wicks Group letter to the Task Force, p. 7 (30 May 2007).

to paragraph 3 of the agreement, Mr. Isaikin explained that Mr. Yakovlev was responsible for ensuring Volga-Dnepr's "compliance with the rules and procedures of the UN" and eliminating "the conflict of interest that he may have had by signing that agreement, being a UN employee."⁸⁵ Volga-Dnepr stated that paragraph 3 of the agreement "expressly demonstrate[d] Volga-Dnepr's desire to comply with the United Nations regulations and practice."⁸⁶ Mr. Isaikin further explained that Mr. Yakovlev "should have" discussed his responsibilities with regard to Volga-Dnepr with his supervisors, and, since he signed the agreement, Volga-Dnepr understood that he had resolved the conflict of interest.⁸⁷

46. The Task Force does not find this explanation credible or persuasive. Paragraph 3 in Volga-Dnepr's agreement with Moxycyco was used only to mask the illegal nature of the arrangements with Mr. Yakovlev. Notably, neither Mr. Yakovlev nor Volga-Dnepr informed anyone at the United Nations of their agreement.⁸⁸ Instead, Volga-Dnepr agreed to conceal the arrangement by signing the agreement with the off-shore company controlled by Mr. Yakovlev and making payments to his off-shore account.⁸⁹ These facts demonstrate that there was knowledge and recognition at the time of the improper nature of the agreement and the payments. Further, the activity was corrupt, as Mr. Yakovlev was an international public official and the payments were made to ensure his assistance in obtaining contracts for Volga-Dnepr.

D. ALEXANDER YAKOVLEV SERVICES

47. The Task Force's investigation established that Mr. Yakovlev assisted Volga-Dnepr by providing information concerning tenders, identifying United Nations agencies that might be able to use Volga-Dnepr as a vendor, ensuring that Volga-Dnepr was receiving timely payments for its services, and updating Volga-Dnepr on the contract requirements.⁹⁰ Mr. Yakovlev's assistance also included reviewing Volga-Dnepr's bids "to ensure that they comply with procedural, general, and substantive matters indicated in the UN request for proposals and bids; in particular, with regard to insurance, legal, and other technical matters."⁹¹

48. According to Mr. Yakovlev, he had no formal role in the selection process for the contract bids that Volga-Dnepr participated in, since aircraft charter services were outside of the commodity group that he was assigned to.⁹² Instead, his work was to make sure

⁸⁵ *Id.*, pp. 3-4; Alexey Isaikin interview (27 April 2007); Agreement between Moxycyco and Volga-Dnepr Ireland (18 July 2001).

⁸⁶ The Wicks Group letter to the Task Force, pp. 7, 11 (30 May 2007).

⁸⁷ Alexey Isaikin interview (27 April 2007); The Wicks Group letter to the Task Force, p. 4 (30 May 2007) (responding to the Task Force's adverse finding letter).

⁸⁸ Alexey Isaikin interview (27 April 2007); Valery Gabriel interview (27 April 2007).

⁸⁹ *Id.*; Alexey Isaikin interview (27 April 2007).

⁹⁰ *Id.*; Valery Gabriel interview (27 April 2007); Dmitry Grishin interview (27 April 2007); The Wicks Group letter to the Task Force, p. 3 (30 May 2007) (describing Mr. Yakovlev's services).

⁹¹ Vladimir Kuznetsov trial transcript, Alexander Yakovlev testimony, p. 152 (27 February 2007).

⁹² *Id.*, p. 151; Alexander Yakovlev interview (28 September 2005).

that Volga-Dnepr's bids complied with the bid requirements and were competitive.⁹³ According to Mr. Yakovlev, he assisted Volga-Dnepr in preparation of approximately thirty to forty bids, of which the company won up to twelve contracts.⁹⁴ Mr. Grishin, Volga-Dnepr's sales manager responsible for the preparation of Volga-Dnepr's proposals, confirmed that Mr. Gabriel, Volga-Dnepr's Commercial Director, had expected Mr. Yakovlev to review and provide comments to Volga-Dnepr's proposals and that Mr. Yakovlev, indeed, reviewed them on at least several occasions.⁹⁵

49. As part of his services to Volga-Dnepr, Mr. Yakovlev provided the company on numerous occasions with confidential internal United Nations documents and information.⁹⁶ These documents were sent by Mr. Yakovlev from the Procurement Service's offices via facsimile and included, *inter alia*, copies of bid opening abstracts and commercial evaluations.⁹⁷ Below is an example of one of Mr. Yakovlev's facsimiles, containing a copy of a commercial evaluation.⁹⁸ The facsimile number used for this and other transmissions—212-963-1677—was assigned to the Procurement Service.⁹⁹

⁹³ *Id.*; Alexander Yakovlev interview (16 and 17 August 2005).

⁹⁴ Vladimir Kuznetsov trial transcript, Alexander Yakovlev testimony, p. 151 (27 February 2007).

⁹⁵ Dmitry Grishin interview (27 April 2007).

⁹⁶ *Id.*; Alexander Yakovlev facsimile to Valery Gabriel (2 October 2001); Alexander Yakovlev facsimile to Valery Gabriel (12 April 2002); Alexander Yakovlev facsimile to Volga-Dnepr (28 December 2004); Alexander Yakovlev facsimile to Dmitry Grishin (2 December 2004); Alexander Yakovlev facsimile to Volga-Dnepr (5 November 2004); Alexander Yakovlev facsimile to Dmitry Grishin (undated); Alexander Yakovlev facsimile to Volga-Dnepr (undated); Alexander Yakovlev facsimile to Volga-Dnepr (15 December 2004); Alexander Yakovlev facsimile to Dmitry Grishin (11 May 2004).

⁹⁷ Dmitry Grishin interview (27 April 2007).

⁹⁸ Alexander Yakovlev facsimile to Valery Gabriel (28 December 2004) (containing a copy of commercial evaluation for ITBS-1146).

⁹⁹ See, e.g., Alexander Yakovlev facsimile to Eures Support Services (1 December 2003) (containing official Procurement Service correspondence and identifying Procurement Service's facsimile number as 212-963-1677).

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ITBS-1146

RSQN 12265-Airlift of Indian COE from New Delhi to Entebbe/Bujumbura
 Bid opening @15.00 HRS on 20 Dec.

Attn: Valery Gabriel

SERIAL	Polet	Volga-Dnper	Air Foyle	Chapman Freeborn
Start date: after 30 Jan	30-Jan	30-Jan	30-Jan	30-Jan
Cargo: 1350 tons / 8966 m ³	up to 100 tons	up to 100 tons	up to 100 tons	up to 100 tons
Aircraft type AN-124	AN-124	AN-124	AN-124	AN-124
No. of aircraft offered	2	2	2	1
Reg. No. of aircraft offered	RA-82010/82014	RA-82042-9/74/81	UR-82009/29/27/72	UR-ZYD
No. of flights offered	TBA	20-22	14?	2-3 flights/week
Option 1: New Delhi-Entebbe				
Positioning to New Delhi 2	95,000	91,000	110,000	inc
New Delhi-Entebbe 22	225,000	218,000	215,000	inc
Entebbe-New Delhi 20	145,000	137,000	142,000	inc
Depositioning from Entebbe 2	148,000	145,000	154,000	inc
TOTAL OPTION 1	8,336,000	8,008,000	8,098,000	331,000 per round trip
Option 2: New Delhi-Bujumbura				
Positioning to New Delhi 2	95,000	91,000	110,000	inc
New Delhi-Bujumbura 22	244,000	242,000	250,000	inc
Bujumbura-New Delhi 20	166,000	165,000	171,000	inc
Depositioning from Bujumbura 2	170,000	162,000	175,000	inc
TOTAL OPTION 2	9,218,000	9,130,000	9,490,000	366,000 per round trip

12/28/2004 13:43 FAX 2128931877

30 days notification required to get special exemption to transport DG

15 working days needed to get permission of operation to transport DG

can offer extended utilization of a/c committed under ITBS-1135

a/c UAE gov. owned, Ukraine registered, operated by Aviant Kyiv State Aircraft manufacturing plant

Figure: Alexander Yakovlev facsimile to Valery Gabriel (28 December 2004) (containing a copy of commercial evaluation for ITBS-1146)

50. The documents provided by Mr. Yakovlev were confidential internal United Nations records.¹⁰⁰ Furthermore, although some information in the commercial evaluations was read aloud during the bid opening ceremony attended by the bidders, certain commercial evaluations contained additional data.¹⁰¹ The documents provided by Mr. Yakovlev allowed Volga-Dnepr to plan its air charter operations in a more strategic way, putting the company in a favorable position.¹⁰²

51. Significantly, on at least one occasion, Mr. Yakovlev provided advance information concerning the anticipated United Nations flights for the following three months:¹⁰³

¹⁰⁰ Staff Member 2 interview (8 May 2007) (identifying Staff Member 2 as a long-time member of the Procurement Service); Staff Member 3 interview (21 May 2007) (identifying Staff Member 3 as a Team Leader with the Procurement Service between 2003 and 2005).

¹⁰¹ *Id.*; Staff Member 2 interview (8 May 2007); Staff Member 1 interview (9 May 2007).

¹⁰² *Id.*; Staff Member 2 interview (8 May 2007); Dmitry Grishin interview (27 April 2007) (stating that Volga-Dnepr needed to know the post-bid results to plan whether it should keep its availability open in case there were any changes).

¹⁰³ Alexander Yakovlev facsimile to Dmitry Grishin (11 May 2004).

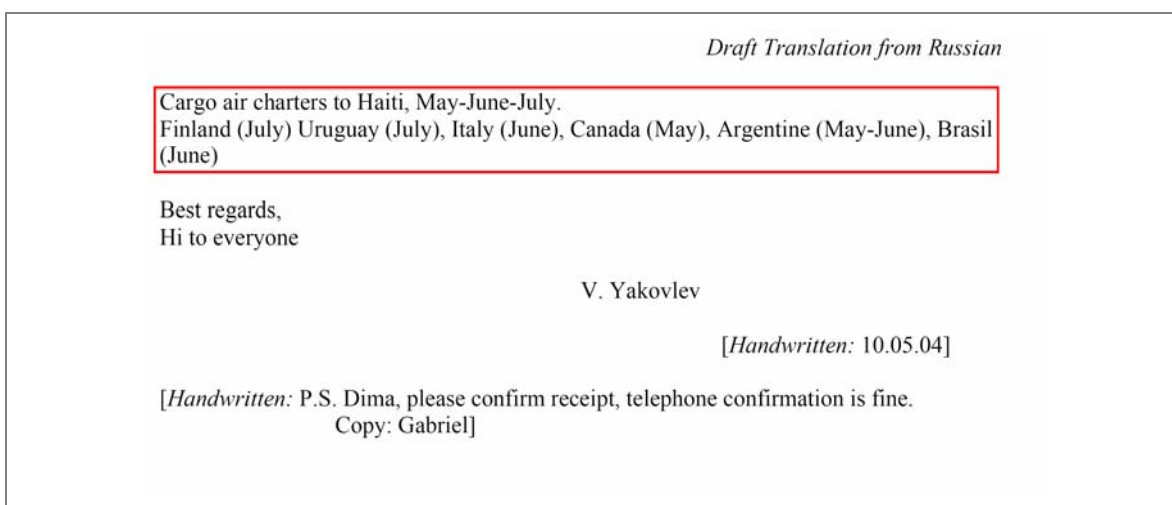
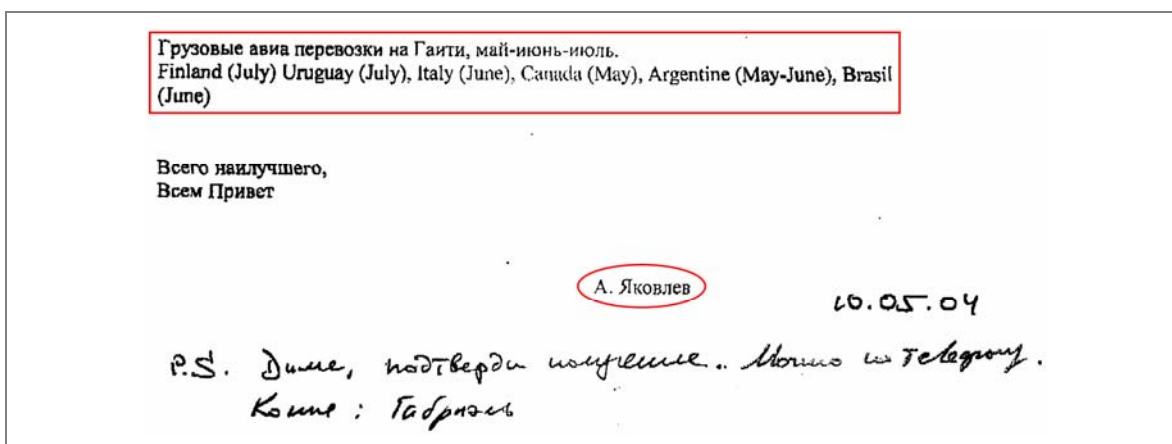


Figure: Alexander Yakovlev facsimile to Dmitry Grishin (11 May 2004)

52. The information concerning the anticipated flights was confidential and provided Volga-Dnepr with benefits not bestowed upon other competing vendors, giving the company unfair advantage in the process and allowing it to plan its bidding strategy ahead of time.¹⁰⁴

53. Volga-Dnepr continued utilizing Mr. Yakovlev's services and receiving confidential information and documents until at least January 2005.¹⁰⁵

E. PAYMENTS TO ALEXANDER YAKOVLEV

54. In order to conceal the payments in connection with Volga-Dnepr's contracts, Mr. Yakovlev opened an off-shore account in the name of Moxycos.¹⁰⁶ Mr. Yakovlev's off-

¹⁰⁴ Staff Member 2 interview (8 May 2007); Staff Member 1 interview (9 May 2007).

¹⁰⁵ Termination Agreement between Moxycos and Volga-Dnepr (undated) (referring to 1 January 2005 as the agreement termination date).

¹⁰⁶ Alexander Yakovlev interview (16 and 17 August 2005); Interim Report on Alexander Yakovlev, pp. 15-17.

shore bank account was fully discussed in the Interim Report on Mr. Yakovlev.¹⁰⁷ Mr. Yakovlev was paid up to 2.5 percent of the payment amount received by Volga-Dnepr from the United Nations as a commission fee for his services, advice, and guidance.¹⁰⁸ These payments were made by Volga-Dnepr Ireland, after it had received its payments from the United Nations.¹⁰⁹ The figure below shows an extract from Volga-Dnepr's contact with Moxycy concerning the payment arrangements.¹¹⁰

Compensation
AGENT will be compensated only upon the acceptance of the proposal in reply to the Bid, signing of a contract and receipt of funds by VOLGA-DNEPR from the UNITED NATIONS. AGENT will be compensated by VOLGA-DNEPR (hereinafter referred as fee) as follows:
Total compensation will equal an amount varying between 2.0% (two percent) AND 2.5% (two and a half percent) of the total funds received by VOLGA-DNEPR for the awarded tender. The fee will be mutually agreed by the parties during the process of tender. The minimum guaranteed fee is not less than 2.0% (two percent).

Figure: Contract between Moxycy and Volga-Dnepr Airlines (Ireland) Ltd. (18 July 2001)

55. Volga-Dnepr Ireland made payments to Moxycy based on the invoices and service acceptance documents, usually provided under Ms. Mouck's name.¹¹¹ Below is an example of one of the service acceptance documents, signed by Ms. Mouck on behalf of Moxycy and Mr. Erkhov on behalf of Volga-Dnepr Ireland.

¹⁰⁷ *Id.*

¹⁰⁸ Alexey Isaikin interview (27 April 2007); Valery Gabriel interview (27 April 2007).

¹⁰⁹ *Id.*; Alexey Isaikin interview (27 April 2007); Alexander Yakovlev interview (28 September 2005) (stating that he was not paid before the award of the contract); Alexander Yakovlev interview (16 and 17 August 2005); Antigua Overseas Bank, Nikal account records (October 2000); Antigua Overseas Bank, Moxycy account records (March 2000 to November 2004).

¹¹⁰ Contract between Moxycy and Volga-Dnepr Airlines (Ireland) Ltd. (18 July 2001).

¹¹¹ Volga-Dnepr Ireland and Moxycy Acceptance Acts of Work Performed (sent by facsimile on 6 September 2001) (numerous copies of documents with different USD amounts); Moxycy invoice to Volga-Dnepr Ireland (authorized on 30 January 2004) (for October and November 2003); Moxycy invoices to Volga-Dnepr Ireland (undated) (for December 2003 and January 2004); Moxycy invoices to Volga-Dnepr Ireland (undated) (for April to August 2004); Moxycy invoices to Volga-Dnepr Ireland (undated) (for January to February 2005); Moxycy invoice to Volga-Dnepr Ireland (undated) (for May 2002); Moxycy invoice to Volga-Dnepr Ireland (undated) (for June 2002); Moxycy invoice to Volga-Dnepr Ireland (undated) (for July and August 2003).

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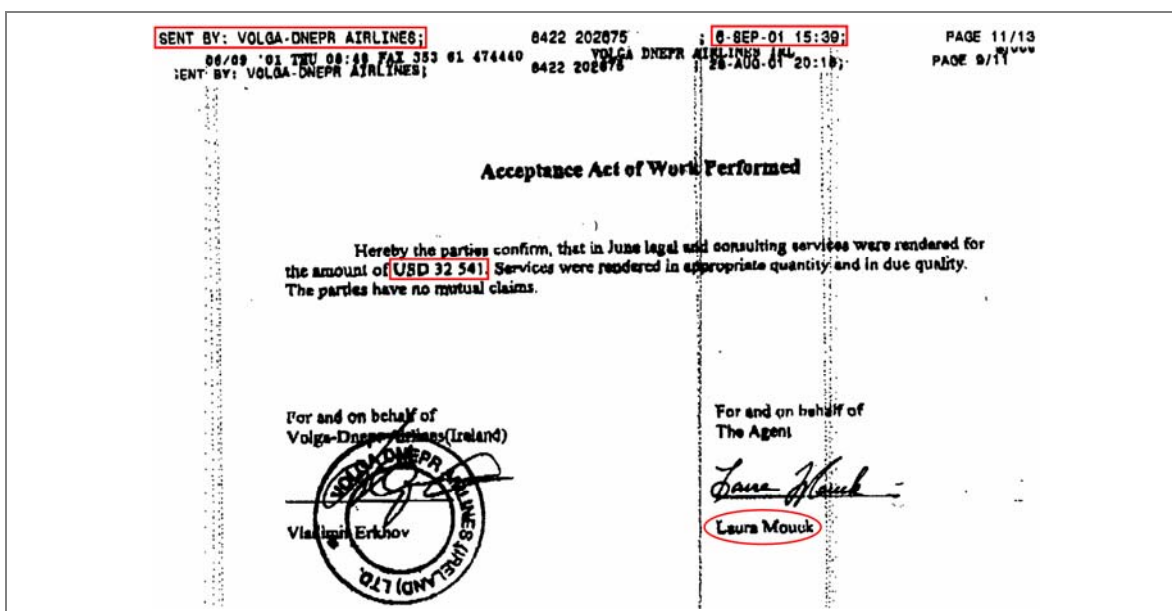


Figure: Volga-Dnepr Ireland and Moxycy Acceptance Act of Work Performed (6 September 2001)

56. Based on the bank records obtained by the Task Force, in the period of March 2000 to November 2004, Moxycy and Nikal received more than US\$1.8 million from Volga-Dnepr and ICT.¹¹²

57. In the period of September 2001 to November 2004, over US\$787,000 was paid by Volga-Dnepr through its offices in Ireland directly to Moxycy.¹¹³ Moxycy also received US\$497,000 from ICT in the period of April to October 2000, and over US\$139,000 in March 2000 from Mrs. Marina Terentiev, wife of ICT's representative Mr. Terentiev.¹¹⁴ Additionally, on 2 October 2000, ICT made one payment of over US\$469,000 to Nikal.¹¹⁵

¹¹² Antigua Overseas Bank, Nikal account records (October 2000); Antigua Overseas Bank, Moxycy account records (March 2000 to November 2004).

¹¹³ Antigua Overseas Bank, Moxycy account records (March 2000 to November 2004).

¹¹⁴ Antigua Overseas Bank, Moxycy account records (April to October 2000); Alexey Isaikin interview (27 April 2007) (stating that Mrs. Marina Terentiev was Mr. Igor Terentiev's wife).

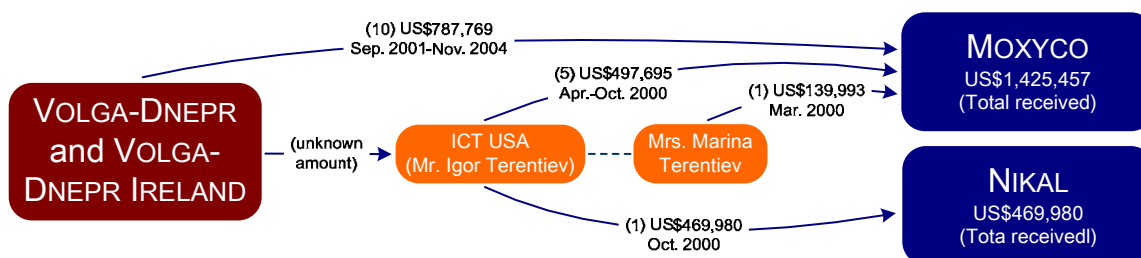
¹¹⁵ Antigua Overseas Bank, Moxycy account records (2 October 2000)

Table A: Volga-Dnepr and ICT payments to Moxycy and Nikal

Date of transfer	Recipient	Amount	Sender
17-Mar-00	Moxycy	\$ 139,993	Marina Terentiev
19-Apr-00	Moxycy	97,750	ICT
27-Apr-00	Moxycy	92,094	ICT
18-May-00	Moxycy	25,165	ICT
09-Aug-00	Moxycy	143,706	ICT
02-Oct-00	Moxycy	138,980	ICT
02-Oct-00	Nikal	469,980	ICT
26-Sep-01	Moxycy	38,432	Volga Dnepr Ireland
04-Oct-01	Moxycy	31,813	Volga Dnepr Ireland
19-Oct-01	Moxycy	95,008	Volga Dnepr Ireland
13-Nov-01	Moxycy	51,143	Volga Dnepr Ireland
17-Jan-03	Moxycy	9,772	Volga Dnepr Ireland
05-June-03	Moxycy	9,778	Volga Dnepr Ireland
18-Nov-03	Moxycy	142,680	Volga Dnepr Ireland
04-Feb-04	Moxycy	81,420	Volga Dnepr Ireland
19-Apr-04	Moxycy	258,900	Volga Dnepr Ireland
03-Nov-04	Moxycy	68,825	Volga Dnepr Ireland
Total		\$ 1,895,437	

58. Chart C below contains a summary of payments generated by the scheme in relation to Volga-Dnepr.

Chart C: Volga-Dnepr and ICT payments to Moxycy and Nikal



59. It should be noted that the amount of actual payments related to Volga-Dnepr could exceed US\$1.8 million, as Moxycy and Nikal received substantial additional sums of money from sources that cannot be identified from the bank records available to the Task Force. (See Chart A.)

60. Volga-Dnepr asserted that it was not aware that its payments to Mr. Yakovlev could have been considered inappropriate.¹¹⁶ The Task Force does not find this assertion at all credible, particularly considering the clandestine nature of the payments. Further, at the time of Volga-Dnepr’s arrangements with Mr. Yakovlev, the United Nations General Conditions of Contract and the United Nations General Conditions for Aircraft Charter Agreements explicitly prohibited the United Nations vendors from providing “any direct

¹¹⁶ The Wicks Group letter to the Task Force, p. 4 (30 May 2007).

or indirect benefit” to the United Nations staff members in connection with their contracts.¹¹⁷ As a United Nations vendor and active air charter contractor, Volga-Dnepr was aware of these provisions.¹¹⁸

F. COMPANY RESPONSE TO THE TASK FORCE

61. During the Task Force’s investigation of the matters discussed in this Report, the Task Force had numerous exchanges with Volga-Dnepr’s legal counsel and company officials concerning the substance of the allegations.

62. On 16 May 2007, after carefully examining available evidence—including information and documents provided by Volga-Dnepr—the Task Force provided the company, through its legal counsel, with an adverse finding letter stating that as a result of the Task Force’s investigation, Volga-Dnepr was found to be in violation of the United Nations regulations, rules, and contract provisions, including Articles 2.0 and 6.0 of the United Nations General Conditions of Contract.¹¹⁹ The company was further informed that its acts constituted bribery and corruption, as they were made to influence the United Nations business in order to receive preferential treatment, and in exchange for confidential United Nations documents and information.¹²⁰ The Task Force’s letter to Volga-Dnepr is attached as Annex A to this Report.

63. On 30 May 2007, Volga-Dnepr’s legal counsel provided the company’s response to the Task Force’s adverse finding letter. Volga-Dnepr’s response is attached as Annex B to this Report. Volga-Dnepr admitted to making payments to Moxycy for Mr. Yakovlev’s services.¹²¹ The company argued, however, that it did not intend to defraud the Organisation and did not receive preferential treatment or confidential documents and information.¹²²

64. Volga-Dnepr asserted that the need for Mr. Yakovlev’s services “was largely due to what has since been revealed and proven to be an impenetrable procurement organization conducive to leaks of confidential information and corruption on the part of its officials.”¹²³ Volga-Dnepr further stated that “it would hardly seem reasonable to put the blame on companies that became caught up in circumstances that tainted the entire procurement procedures in the Organization at the time”:¹²⁴

¹¹⁷ 2006 Procurement Manual, United Nations General Conditions of Contract, art. 6.0; 1998 Procurement Manual, United Nations General Conditions of Contract, art. 4.0; United Nations General Conditions for Aircraft Charter Agreements (undated) (applicable in 2002 and 2007).

¹¹⁸ Valery Gabriel interview (27 April 2007); The Wicks Group letter to the Task Force, p. 1 (30 May 2007).

¹¹⁹ The Task Force letter to Alexey Isaikin (16 May 2007) (sent through Volga-Dnepr’s legal counsel).

¹²⁰ *Id.*

¹²¹ The Wicks Group letter to the Task Force, p. 1 (30 May 2007).

¹²² *Id.*, pp. 2-3.

¹²³ *Id.*, p. 3.

¹²⁴ *Id.*

It should also be pointed out that the need for such services and an additional effort to obtain them externally for companies that are generally located far from the Organization and do not necessarily have their own company representation in the area, was largely due to what has since been revealed and proven to be an impenetrable procurement organization conducive to leaks of confidential information and corruption on the part of its officials.

In the context of such revelations, it would hardly seem reasonable to put the blame on companies that became caught up in circumstances that tainted the entire procurement procedures in the Organization at the time. Instead, there needs to be a clear differentiation between

Figure: The Wicks Group letter to the Task Force, p. 3 (30 May 2007).

65. Volga-Dnepr's statements, attempting to excuse its own unacceptable conduct by references to "corruption" and "leaks of confidential information," are without merit. Moreover, they are particularly noteworthy considering that this company willingly paid (both directly and through its intermediaries) over US\$1.8 million to Mr. Yakovlev in exchange for improper assistance and confidential documents and information.

66. In summary, the Task Force investigation showed that Volga-Dnepr solicited and received confidential United Nations documents and information from the United Nations Procurement Officer Mr. Yakovlev in exchange for over US\$1.8 million. To conceal this illegal arrangement, these payments were made to Mr. Yakovlev's off-shore account controlled through his off-shore company. Through these illegal and nefarious acts, Volga-Dnepr and Mr. Yakovlev were able to corrupt the procurement process to the detriment of the Organisation. Nothing in Volga-Dnepr's responses to the allegations prompts the Task Force to revise its findings and conclusions with respect to Volga-Dnepr and entities and individuals associated with it.

VIII. DUE PROCESS

67. During the Task Force's investigation of the matters discussed in this Report, Volga-Dnepr and its officials were fully informed of the allegations against them and provided with relevant evidence, including copies of payment records. Throughout its investigation, the Task Force coordinated its communications with the company and its officials through Volga-Dnepr's legal counsel, The Wicks Group.

68. As part of its investigation, the Task Force interviewed several Volga-Dnepr officials with direct knowledge of the matters discussed in this Report, including Mr. Isaikin, Mr. Gabriel, and Mr. Grishin. Volga-Dnepr was also afforded ample opportunity to present relevant documents and information to the Task Force.

69. The Task Force notes that, although initially Volga-Dnepr was not fully cooperative with the Task Force, after several communications between the Task Force and the company's legal counsel, Volga-Dnepr produced a number of relevant records and provided access to several officials of the company.

IX. FINDINGS

70. The Task Force finds that, between in or about March 2000 and November 2004, Volga-Dnepr Airlines and Volga-Dnepr Airlines (Ireland) Ltd., companies registered as United Nations vendors and thereby bound by the Organisation's rules, corruptly provided in excess of US\$1.8 million to Mr. Alexander Yakovlev, a former United Nations Procurement Service official, both directly and through associated companies and individuals (including ICT USA Corp., Mr. Igor Terentiev, and Mrs. Marina Terentiev). These payments were made to improperly and unlawfully influence the procurement processes and official business of the United Nations. Further, the payments to Mr. Yakovlev were made in exchange for confidential United Nations documents and information, as well as Mr. Yakovlev's assistance in securing contracts with the Organisation on behalf of Volga-Dnepr and Volga-Dnepr Ireland. The companies' conduct, discussed in this Report, was corrupt and unlawful, and severely compromised the integrity of the procurement processes in which these companies participated. Further, the conduct described in this Report served to undermine the reputation of the United Nations and its staff members.

71. The conduct set forth in the preceding paragraph was in violation of criminal laws of the host country, as well as the United Nations procurement and financial rules. By orchestrating a scheme to obtain valuable United Nations contracts through fraudulent and corrupt means, including payments to a public official to influence the operations of an international organisation, Volga-Dnepr Airlines and Volga-Dnepr Airlines (Ireland) Ltd., as well as the officials who participated in the efforts identified herein, committed criminal acts. These companies violated, and caused to be violated, United Nations procurement rules, procedures, and contractual provisions, which prohibit the United Nations vendors from engaging in corrupt practices during the procurement process.

72. The conduct of Volga-Dnepr Airlines and Volga-Dnepr Airlines (Ireland) Ltd. caused financial loss to the Organisation. The funds corruptly provided to Mr. Yakovlev were directly attributable to these companies' profits from the fraudulently obtained United Nations contracts, and directly derived from the payments made by the Organisation under these contracts. Furthermore, the conduct of Volga-Dnepr caused substantial damage to the Organisation's reputation.

73. The Task Force finds that a number of Volga-Dnepr employees had knowledge of, were responsible for, or participated in the corrupt acts, including Mr. Alexey Isaikin, Mr. Valery Gabriel, and Mr. Dmitry Grishin.

74. The Task Force notes the assistance provided by Volga-Dnepr and its counsel during the investigation, including access to its principals and the production of documents, in accordance with the company's obligations as a United Nations vendor.

X. CONCLUSIONS

75. The Task Force concludes that Volga-Dnepr Airlines, Volga-Dnepr Airlines (Ireland) Ltd., ICT USA Corp., Mr. Alexey Isaikin, Mr. Valery Gabriel, Mr. Dmitry

Grishin, Mr. Igor Terentiev, Ms. Marina Terentiev, and possibly other officials of these companies, engaged in criminal acts, including bribery, corruption, and money laundering.

76. The Task Force further concludes that Volga-Dnepr Airlines and Volga-Dnepr Airlines (Ireland) Ltd. violated the following provisions of the United Nations procurement rules:

(i) Sections 4.3(2)(a) and 4.3(2)(c) of the 2006 Procurement Manual and corresponding provisions in earlier editions of the Procurement Manual, which provide that vendors should not engage in bribery and fraud;

(ii) Section 4.3(3)(c) of the 2006 Procurement Manual and corresponding provisions in earlier editions of the Procurement Manual, which state that vendors should not engage in “unethical or unprofessional conduct, including corrupt practices and submission of false information”;

(iii) Article 2.0 of the United Nations General Conditions of Contract, which states that vendors “shall refrain from any action that may adversely affect the United Nations and shall fulfill . . . [their] commitments with the fullest regard to the interests of the United Nations”; and

(iv) Article 6.0 of the United Nations General Conditions of Contract, which states that “[t]he Contractor warrants that no official of the United Nations has received or will be offered by the Contractor any direct or indirect benefit arising from this Contract or the award thereof. The Contractor agrees that breach of this provision is a breach of an essential term of this Contract.”

77. The Task Force further concludes that Volga-Dnepr Airlines and Volga-Dnepr Airlines (Ireland) Ltd. caused violations of Staff Regulations 1.2(b), 1.2(e), 1.2(f), 1.2(g), 1.2(i), 1.2(l), as well as Sections 4.1.5(4)(a), 4.2(1), 4.2(2) of the 2006 Procurement Manual (and corresponding provisions in earlier editions of the Procurement Manual), which state that procurement officers should act in the best interests of the Organisation and should not use their office for private gain. The Task Force further concludes that Volga-Dnepr Airlines and Volga-Dnepr Airlines (Ireland) Ltd. caused violations of Financial Regulation 5.12 and Financial Rule 105.14, which state that the United Nations procurement is guided by the principles of best value for money, fairness, effective competition, and by the interests of the United Nations.

XI. RECOMMENDATIONS

A. RECOMMENDATION PTF-R006/07/1

78. The Task Force recommends that the Procurement Service take all necessary steps to permanently remove Volga-Dnepr Airlines and Volga-Dnepr Airlines (Ireland) Ltd. from the vendor registration list in accordance with the United Nations procurement rules, and that these companies, in any form and in any capacity, be banned from any United Nations business, either directly or indirectly, including as an affiliate of any other

vendor. The Task Force further recommends that the Organisation should not conduct any business with any joint ventures that these companies participate in, including Ruslan SALIS GmbH and Ruslan International, and any of their subsidiaries and assignees.

79. The Task Force further recommends that the entities and individuals involved in the arrangements of Volga-Dnepr Airlines and Volga-Dnepr Airlines (Ireland) Ltd. with Mr. Alexander Yakovlev—Mr. Alexey Isaikin, Mr. Valery Gabriel, Mr. Dmitry Grishin, ICT USA, Mr. Igor Terentiev, and Mrs. Marina Terentiev—be banned from conducting any business with the Organisation.

B. RECOMMENDATION PTF-R006/07/2

80. The Task Force recommends that the Secretary-General direct the Office of Legal Affairs to undertake an examination of whether the Organisation's losses from the fraudulent conduct of Volga-Dnepr Airlines and Volga-Dnepr Airlines (Ireland) Ltd. can be recovered from the United Nations vendors identified above through civil, administrative, or criminal processes.

C. RECOMMENDATION PTF-R006/07/3

81. The Task Force further recommends that the Secretary-General request the Office of Legal Affairs to make appropriate referrals for criminal prosecution with regard to Volga-Dnepr Airlines, Volga-Dnepr Airlines (Ireland) Ltd., ICT USA, and company officials identified in this Report.

D. RECOMMENDATION PTF-R006/07/4

82. The Task Force recommends that the Secretary-General request the Office of Legal Affairs to continue its efforts to recoup the proceeds of Mr. Yakovlev's unlawful schemes, including asserting claims against the funds held at various financial institutions for the benefit of Mr. Yakovlev, and asserting a claim with the United States District Court, Southern District of New York. Further, the Task Force recommends that the United Nations seek recovery of the proceeds of Mr. Yakovlev's illegal schemes under the common principles of criminal and civil liability, as well as under the United Nations rules and regulations, including Staff Rule 112.3, which states that "[a]ny staff member may be required to reimburse the United Nations either partially or in full for any financial loss suffered by the United Nations as a result of the staff member's negligence or of his or her having violated any regulation, rule or administrative instruction."

E. RECOMMENDATION PTF-R006/07/5

83. The Task Force strongly recommends that the Secretary-General direct the Office of Legal Affairs and the Procurement Service to amend and revise the United Nations General Conditions of Contract and vendor registration forms to require, as a condition of doing business with the Organisation, that vendors, their subsidiaries, agents, intermediaries, and principals cooperate with OIOS in its investigations. Such cooperation shall include, but not be limited to, access to all employees, representatives,

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agents, and assignees of the vendor, as well as production of all documents requested, including financial records. Failure to fully cooperate with investigations must be sufficient grounds allowing the Organisation to repudiate and terminate the contract and debar and remove the vendor from the Organisation's list of registered vendors. Further, notice to this effect should be included in the Procurement Manual and provided to prospective vendors through the Procurement Service's website and solicitation documents.

ANNEX A: THE TASK FORCE LETTER TO VOLGA-DNEPR (16 MAY 2007)

UNITED NATIONS  NATIONS UNIES

POSTAL ADDRESS—ADRESSE POSTALE UNITED NATIONS, N.Y. 10017
CABLE ADDRESS—ADRESSE TELEGRAPHIQUE UNATIONS NEWYORK

16 May 2007
VIA EMAIL

REFERENCE:

Dear Mr. Alexey Isaikin,

Please be advised that the Procurement Task Force ("the Task Force") of the Office of Internal Oversight Services ("OIOS") of the United Nations is in the process of completing its investigation concerning Volga-Dnepr Airlines ("Volga-Dnepr") and issuing its final report to the Organisation. As you are aware, Volga-Dnepr is a subject of the investigation.

This is to provide you with notice of the intention of the Task Force, consistent with its mandate, to report to the Organisation formally upon this matter and to allow you an opportunity to provide any comments or response to the proposed final findings, and offer any information and evidence you deem appropriate and relevant, and believe the Task Force should consider. The Task Force will evaluate your comments, and consider your evidence before it reaches firm conclusions, and before it reports, provided that you submit such relevant information to the Task Force in a timely manner.

The Task Force notes that it had several substantive exchanges with your company and its representatives regarding the matters under examination. The statements, comments, and records provided by you and other officers and representatives of Volga-Dnepr have been taken into consideration by the Task Force. During the course of the investigation, Volga-Dnepr was made aware of the scope of allegations and was provided with numerous opportunities to present its own information, documents, and any other evidence that it considers relevant. Furthermore, the Task Force has provided you with information upon which it intends to rely in reaching its conclusions, including the bank account records.

A summary of the proposed draft findings in the Task Force's final report is provided below:

Between September 2001 and November 2004, Volga-Dnepr paid over US\$787,000 directly to Moxycos Ltd ("Moxycos"), a company created by a former United Nations official to conceal his illegal arrangements with a number of United Nations vendors. Volga-Dnepr also made substantial payments to ICT USA Corp., an intermediary it utilized for its contracts with the United Nations, of which over \$1.1

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million was subsequently transferred to Moxycy and Nikal Ltd. ("Nikal"), a company controlled by another former United Nations official. Volga-Dnepr's payments were made and accepted in direct violation of the United Nations regulations, rules, and contract provisions, including Articles 2.0 and 6.0 of the United Nations General Conditions of Contract. Furthermore, these payments constituted bribery and corruption, as they were made to influence the United Nations business in order to receive preferential treatment for Volga-Dnepr, and in exchange for confidential United Nations documents and information.

Please provide any response, and any information you would like the Task Force to consider by 30 May 2007. If you have any questions, please contact Task Force Investigator Richard Mika, at mika@un.org or +1 (917) 367-3239 to make the necessary arrangements.

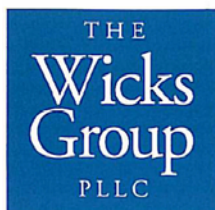
Yours sincerely,

Robert Appleton
Chairman

Procurement Task Force
Office of Internal Oversight Services

Mr. Alexey Isaikin
c/o Glenn P. Wicks
The Wicks Group, PLLC
1215 17th Street
Summer Annex, Fifth Floor
Washington, DC 20036
Tel.: (202) 457-7790
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ANNEX B: THE WICKS GROUP LETTER TO THE TASK FORCE (30 MAY 2007)



1215 17th Street, NW, Sumner Square, Fourth Floor
Washington, DC 20036
Tel: 202.457.7790 • Fax: 202.457.7799

Washington, DC

May 30, 2007

VIA FAX & E-MAIL

Mr. Robert Appleton
Chairman
Procurement Task Force
Office of Internal Oversight Services
United Nations
Headquarters
New York, NY 10017

Re: *Response to the Preliminary Conclusions of the Procurement Task Force of the Office of Internal Oversight Services of the United Nations*

Dear Mr. Appleton,

On May 16, 2007, Volga-Dnepr Airlines (“Volga-Dnepr” or “the Company”) received notification from the Procurement Task Force (“the Task Force”) of the Office of Internal Oversight Services (“OIOS”) of the United Nations Organization (the “United Nations,” the “UN” or the “Organization”) that the Task Force is in the process of issuing its final report to the Organization in its investigation concerning Volga-Dnepr (“the Task Force Notice” or “Notice”). Following its procedures set forth in paragraph 77 of the United Nations OIOS Manual of Investigation Practices and Policies (“OIOS Investigative Manual”), the Task Force Notice included a summary of proposed final findings of its investigation (“Preliminary Conclusions”). The Task Force requested a response to its Preliminary Conclusions by May 30, 2007, including any comments or information deemed appropriate and relevant for the Task Force to consider before it reaches firm conclusions and submits its final report to the United Nations.

This letter serves as Volga-Dnepr’s response to the Task Force’s Preliminary Conclusions, and is submitted within the response time set forth in the Notice.

Volga-Dnepr respectfully submits that even though some of the Preliminary Conclusions are factually correct on their face, the pervasive and fundamental implications drawn from those facts are largely unwarranted and unsupported by the information and documentation that was provided to the Task Force by the Company.

Volga-Dnepr concurs with the Preliminary Conclusions to the extent that (1) it paid to Moxycos (for the consulting services of Mr. Yakovlev) the amounts cited by the Task Force; and (2) based upon currently available public information evidencing that Mr. Yakovlev apparently violated his duty to the United Nations by seeking and entering into arrangements with UN vendors, such payments did, in retrospect, violate Rule 6.0 of the UN procurement rules relating to payments to UN Officials.

At the same time, Volga-Dnepr strongly objects to the overarching implication that it was a knowing participant in Mr. Yakovlev's violations of his duty to the United Nations and was knowingly associated with Mr. Yakovlev's "bribery and corruption." Volga-Dnepr further objects to the fact that the Task Force incorrectly implies that Volga-Dnepr knowingly used "confidential UN information" and received "preferential treatment."

Volga-Dnepr's payments to Moxycy did not constitute bribery and corruption because: (i) Volga-Dnepr did not intend to defraud or adversely affect the United Nations; (ii) Mr. Yakovlev did not have commodity group jurisdiction over the Company bids and did not influence the procurement of Company bids; (iii) Volga-Dnepr did not receive, nor did it seek, preferential treatment, but instead sought proper and timely payment for past performance that was lawfully owed and due to it pursuant to United Nation's contractual obligations; and (iv) Volga-Dnepr did not seek to obtain confidential documents and information, but rather general consulting services, including ready access to publicly available documents and information.

I. Overview of Volga-Dnepr's Position

Volga-Dnepr has consistently maintained that in establishing, in early 2001, its arrangement with Mr. Yakovlev, it never sought, or received, any services that would have appeared to it at the time to be in any way improper or illegal. As such, Volga-Dnepr did not then, nor has it ever since then, sought to receive, from Mr. Yakovlev or anyone else, any improper assistance, information or preferential treatment with respect to its bidding for UN business.

From the very beginning, Volga-Dnepr has always known and understood that in Mr. Yakovlev it was selecting a consultant who, as he himself has recently unequivocally stated in his own sworn testimony, was specifically not involved in any tender or bidding processes related to the services of air transportation, and did not have any influence over the bidding for, or the awards of, any contracts in the air transportation area -- or access to any relevant information related to such contracts that would not be otherwise publicly available.¹

In deciding to accept Mr. Yakovlev's services, Volga-Dnepr did not look to obtain any preferential or otherwise favorable treatment for itself in terms of obtaining more UN business or winning more bids -- which it was perfectly qualified to do on its own, through open and fair bidding processes, that were, as it believed, at that time, already ensured and enforced at the United Nations with respect to air transportation services.

Volga-Dnepr was winning its bids, as the low bidder, and losing those where it was not the low bidder, in highly specialized and limited, and therefore inherently transparent, competition against only two or three other existing operators of similar equipment. In fact, the proportion of the number of bids that Volga-Dnepr won in the overall number of tenders that it participated in during the period of its association with Mr. Yakovlev, is consistent with the absence of any preferential treatment or any undue influence with respect to those awards. Indeed, Volga-Dnepr won 10-12 bids out of the approximately 40 bids in which it was involved during that time. With Volga-Dnepr's fleet constituting 46% of all AN 124-100 aircraft it only won 25% of the total bids that it participated in. These award percentages bear out normal competition in the market which Volga-Dnepr never had any intention to inappropriately tip in its favor.

¹ *United States v. Kuznetsov* (S.D.N.Y. 2007), Yakovlev Testimony, 72RVKU3, at 151.

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As was shown during the Task Force's interviews with Volga-Dnepr's officials, and in the documentation presented to the Task Force, what Volga-Dnepr did seek in its arrangements with its agents prior to Mr. Yakovlev, and in its arrangement with him, was what it perceived as legitimate services. Volga-Dnepr sought to receive: (1) logistical and technical assistance in effective communications with the Organization; (2) timely and organized otherwise publicly available pre- and post-bid information; (3) assistance in ensuring timely payments from the United Nations to the Company for performed contracts and elimination of recurrent delays in the payment process; (4) general guidance with respect to meeting the United Nations' ever evolving technical, safety, security, insurance, and other requirements; and (5) information about the situation on the ground, especially in areas of unrest or military conflict, in order to ensure the safety of Volga-Dnepr's crews and aircraft. The information that was requested from, and provided by, Mr. Yakovlev was the kind of information that any agent, not related to the Organization, could also be asked to provide.

In requesting and obtaining such information Volga-Dnepr was acting in good faith and without any intent to corrupt, defraud or in any way negatively impact the Organization or any other entity, company or individual – or obtain any undue benefit for itself. It was, instead, guided by the desire to provide the best possible service under its contracts with the Organization and best meet the Organization's requirements; provide the best possible protection for its crews and aircraft when operating in extremely dangerous conditions; and receive timely payment for the provided services. Such desire was reinforced by an Organization that at that time was, at best, less than transparent to deal with, and whose official led the Company to legitimately believe that it would be best advised by a person who would have immediate knowledge of the UN system's requirements.

All the functions mentioned above, if performed by any agent who was not an official of the United Nations, would not have been in any way questioned or subject to any scrutiny. By using in that capacity Mr. Yakovlev, who was an official of the United Nations, Volga-Dnepr became, without any improper intent, involved in what now appears to be an inappropriate relationship.

In fact, at the time, Volga-Dnepr did question the ability of Mr. Yakovlev, in his capacity as a UN official, to undertake the offered services, and intentionally included in its formal agreement with Mr. Yakovlev the language that set forth, as one of his key functions, his obligation to ensure that the parties comply with laws, regulations, and practice of the United Nations. Volga-Dnepr was apparently the only company shown to have been involved with Mr. Yakovlev to have such a written agreement, even though, in hindsight, the Company erroneously viewed the agreement itself and the referenced language as explicit evidence of the legitimacy of the arrangement.

It should also be pointed out that the need for such services and an additional effort to obtain them externally for companies that are generally located far from the Organization and do not necessarily have their own company representation in the area, was largely due to what has since been revealed and proven to be an impenetrable procurement organization conducive to leaks of confidential information and corruption on the part of its officials.

In the context of such revelations, it would hardly seem reasonable to put the blame on companies that became caught up in circumstances that tainted the entire procurement procedures in the Organization at the time. Instead, there needs to be a clear differentiation between companies that did in fact seek to gain contracts and preferential treatment through relationships with UN officials who had jurisdiction over the award of their contracts, and companies that, like

Volga-Dnepr, were seeking to understand and navigate the UN system in order to be able to provide better services and receive timely payments under the contracts that they had already been awarded through the normal bidding process.

II. Response to the Task Force's Preliminary Conclusions

a. Volga-Dnepr's Payments to Moxycy Were a Part of a Contractual Agency Arrangement.

In its Preliminary Conclusion, the Task Force has stated that “between September 2001 and November 2004, Volga-Dnepr paid over US\$787,000 directly to Moxycy, a company created by a former United Nations official to conceal his illegal arrangements with a number of United Nations vendors.”

Volga-Dnepr did pay the referenced amounts to Moxycy as the company identified to it by Mr. Yakovlev as an instrument of convenience for his agency arrangement with Volga-Dnepr. Volga-Dnepr was not, however, aware at that time that such payments could have been considered inappropriate, and it had no way of knowing that Moxycy could have been a “company created by a former United Nations official to conceal his illegal arrangements with a number of United Nations vendors” – nor was Volga-Dnepr ever informed by Mr. Yakovlev about any restrictions that he may have had for such agency activities, or about his other arrangements with other companies. Volga-Dnepr, therefore, harbored no inappropriate intent to defraud the United Nations or to circumvent the Organization's regulations and rules.

In establishing its agency arrangement with Mr. Yakovlev, and being aware of his status as a United Nations official, the Company acted in good faith by requiring that the arrangement be transparent and documented by an explicit formal agreement that listed, as one of the agent's three primary obligations, the obligation to “provide Volga-Dnepr with guidance and assistance that it may carry out the tender process in conformity with the laws, regulations, and practice of the United Nations.” Mr. Yakovlev's willingness to accept such an agreement was perceived by the Company as *prima facie* evidence that the arrangement was not an illegitimate one, and that Mr. Yakovlev was accepting the responsibility of ensuring its legitimacy. In retrospect, Volga-Dnepr understands that by virtue of his position as a UN official, Mr. Yakovlev's solicitation and receipt of payment for his advice raises doubts as to the legitimacy of the arrangement. Volga-Dnepr does not contest this fact, but only suggests that the Task Force should take into account the circumstances surrounding this arrangement and consider as a mitigating factor the Company's genuine belief that its efforts to address this concern by means of a transparent agreement were sufficient.

As was explained in the interviews of the senior Company officials, Volga-Dnepr started providing air transportation services to the United Nations shortly after its establishment as an airline in the early 1990s. At that time, the United Nations relied heavily in its tenders for the aircraft manufactured and registered in the former Soviet Union on the services of major brokers who, acting as “indirect air carriers²,” were registered as United Nations suppliers and were participating in UN tenders instead of the actual operators of the supplied aircraft. Volga-Dnepr

² Indirect air carriers are brokers, freight forwarders and other intermediaries who hold-out the services of an air carrier without themselves being an air carrier. Direct air carriers are actual airlines who hold out their own services and possess an air operator certificate. Under U.S. law, an indirect air carrier may act as agent of a direct air carrier that has authorized such agency, rather than as an air carrier, if it expressly reserves the option to do so when the shipment is accepted. See 14 CFR Part 296.

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registered as a United Nations supplier in 1994, but in the broker-dominated bidding environment at that time, it was receiving its UN business mostly either through the brokers or through its then joint venture partner, Heavy Lift Airlines.

By the end of 1998, following several incidents involving brokers who were identified as providing unsafe aircraft from questionable operators for contracts with the United Nations, the Organization began switching to direct contracts with actual, "direct air carriers³," and Volga-Dnepr started participating in bidding for UN contracts itself. However, due to the lack of transparency and certain deficiencies that existed in the UN bidding and communication processes, Volga-Dnepr came to the conclusion that in order to protect its bids and ensure its efficient communication with the Organization, it needed to have its own representative locally in New York – rather than continue to maintain all contacts with the Organization from its base in Russia. In full conformity with the general practices in the air transportation services market, Volga-Dnepr entered into a number of successive agency agreements, among which were its agreements with ICT and, subsequently, Mr. Yakovlev (through his company Moxycy).

The agency agreements signed by Volga-Dnepr, in succession, with its agents had basic common provisions typical of standard General Sales Agent ("GSA") agreements used in the air transportation services market, such as the broadest possible description of services; exclusivity of the agent's services with respect to the Company's specific type of operation and aircraft; a general market rate for the commission; and payment after completion by the Company of the contract and receipt of payment from the United Nations. The agency agreements signed by Volga-Dnepr with ICT and with Moxycy, thus, bear many similarities, and spell out the agents' obligations broadly without stating the specific day-to-day functions. The key difference with the ICT agreement is that the Moxycy agreement contains an additional provision aimed at ensuring the legality of the arrangement and functions carried out by the agent due to Mr. Yakovlev's position as a UN official.

From 1999 to 2000, Volga-Dnepr had an agency arrangement with ICT, a company engaged in agency and brokerage services in the air transportation market serving a number of Russian air carriers. Volga-Dnepr selected ICT because it knew the company from its activities in air transportation between Russia and the United States. It entered into a standard agency agreement with ICT and agreed to compensate ICT with a commission of up to 6%. This commission was consistent with generally accepted commission rates in the charter cargo market.

At the time, the United Nations did not have a transparent procurement bidding process. Vendors consistently faced difficulties obtaining the requisite information concerning compliance with the procedural and substantive requirements of the United Nations procurement process. In order to ensure timely and confidential submission of bids, Volga-Dnepr sought to have a representative onsite at the United Nations in order to avoid bid information being leaked to competitors before the close of bids.

Consequently, on a day-to-day basis ICT was required to: (1) hand-deliver Company proposals for tender literally minutes before the closure of bids to prevent information leaks of its pricing; (2) attend, on behalf of Volga-Dnepr, procurement award announcements where the winning bid and pricing information for all participating bids were announced; (3) ensure that the Company's bid proposal itself was completed and formatted in compliance with the bid requirements, and (4) facilitate and coordinate all issues related to the Company's receipt of payments for performed contracts and outstanding invoices.

³ See *id*; see also 14 CFR Part 119.

Some functions that were essential for ICT as the Company's agent during the period of 1999-2000 (such as hand delivery of Volga-Dnepr's bids just before the submission deadline and physical presence at the bid opening and award for collection of the post-bid information) lost their relevance by the year 2001 following drastic improvements in the organization and protection of the bid submission and opening procedures at the UN, and the electronic publication of the post-bid information and pricing.

However, the function of securing timely payment of Volga-Dnepr's invoices remained a serious problem in 2001. In fact, Volga-Dnepr was owed substantial amounts of money by the UN, and those payments were exceedingly slow in being processed, despite the fact that the services were duly rendered and payments were clearly owed. Indeed, for reasons of both bureaucratic delays in invoice acceptance and lack of budget funds, the UN systematically delayed payments in violation of its contractual obligations. At times the UN owed Volga-Dnepr amounts of over USD \$6,000,000.00 (in excess of 180 days). So drastic was the impact of such delayed payments on Volga-Dnepr's financial stability that Volga-Dnepr was forced to seek short term high interest loans at interest rates ranging from 12% to 14% in order to continue to be able to cover its operational costs. In fact, at times, the delayed payments constituted almost 10% of the entire annual revenue of the company. In the absence of any contractual recourse against the UN for late payments, Volga-Dnepr had no choice but to seek objective information about the status of the payments and reasons for the delays in order to resolve these issues with the UN.

Because both ICT and Volga-Dnepr raised these issues with numerous UN officials, Mr. Yakovlev was well aware of Volga-Dnepr's issues related to late payments. He also became aware of Volga-Dnepr's dissatisfaction with ICT's inability to address these issues and suggested to Volga-Dnepr that he could do a better job of addressing these issues for Volga-Dnepr than ICT. As such, Volga-Dnepr terminated its agreement with ICT and entered into a new agency agreement with Mr. Yakovlev through Moxycyco as his designated company. Under the Moxycyco contract, Mr. Yakovlev received a lower percentage payment than ICT, 2-2.5% compared to up to 6%, to reflect his comparatively more narrow scope of responsibilities.

As noted above, Mr. Yakovlev's agency agreement, as provided to the Task Force, enumerated certain functions. The language of the agreement provides a broad description the actual obligations of Mr. Yakovlev.⁴ These obligations were in fact those of an agent/advisor to Volga-Dnepr at the UN. In fact, advice in resolving delayed payments for services competitively awarded to, and duly rendered by, Volga-Dnepr was Mr. Yakovlev's primary function under the agreement.

b. Volga-Dnepr Acted in Good Faith and Did Not Intend to Adversely Affect the United Nations.

Volga-Dnepr did not intend to defraud or adversely affect the United Nations through its payments to, and relationship with, Mr. Yakovlev. Volga-Dnepr was aware that Mr. Yakovlev had no jurisdiction over the Company's services, air transportation. The Company did not attempt to conceal its relationship with Mr. Yakovlev and, in fact, established an explicit contractual relationship with Moxycyco at his direction. This agency relationship followed and carried over from the Company's previous contractual arrangement with ICT, a broker and freight-forwarder completely external to the United Nations. In fact, Volga Dnepr employed a similar percentage payment structure that mirrored the more limited services Mr. Yakovlev was

⁴ See Moxycyco Agreement Dated July 18, 2001, Obligations of Agent.

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to provide to the Company. Thus, Volga-Dnepr did not perceive its relationship with Mr. Yakovlev as different from other common agency relationships within the air cargo transportation industry. Moreover, Volga-Dnepr purposefully and carefully negotiated provisions requiring Mr. Yakovlev to provide assistance and guidance in conformity with the United Nations practice and regulations.

Volga-Dnepr's transparency in making payment to Moxycyco also demonstrates how it perceived the arrangement at that time. Payments to Moxycyco were made from Volga-Dnepr Ireland, a legitimate subsidiary of Volga-Dnepr with the primary business as a maintenance base for Volga-Dnepr aircraft. As was provided in the documents to the Task Force, Volga-Dnepr Ireland accounts were also used to pay numerous vendors, such as Eurocontrol, and fuel suppliers, and receive payments from numerous customers, including the UN.⁵ Hence, the transparency of the arrangement and payments thereunder demonstrate that the Company did not seek to adversely affect or harm the interests of the United Nations, but rather it sought practical solutions to its problems as a vendor with the United Nations, namely timely payment of outstanding invoices.

The Company recognizes that the Task Force may interpret Volga-Dnepr's payments to Moxycyco as breaching United Nations regulations and rules, and contract provisions. The Task Force finds that "Volga-Dnepr's payments were made and accepted in direct violation of the United Nations regulations and rules, and contract provisions, including Articles 2.0 and 6.0 of the United Nations General Conditions of Contract."⁶

To be sure, Mr. Yakovlev benefited through Volga-Dnepr's payments to Moxycyco for his services to the Company. However, Volga-Dnepr never intended, at any time, to violate UN regulations, its contracts with the Organization, or adversely affect the United Nations through its contractual agency relationship with Mr. Yakovlev. The Moxycyco agency contract itself expressly demonstrates Volga-Dnepr's desire to comply with the United Nations regulations and practices.

Mr. Yakovlev, as a Russian speaker, was introduced by the United Nations to Russian vendors, such as Volga-Dnepr, to assist and guide such vendors in the procurement process. He was also listed as a point of contact by the United Nations for vendor information. Therefore, Mr. Yakovlev was advantageously situated to replace ICT and help Volga-Dnepr with the remaining issue of late payments. In addition, as an informed point of contact, Mr. Yakovlev could direct Volga-Dnepr to the proper authorities to resolve other issues and provide updates on any changing legal, technical or safety requirements of the United Nations. While this information was publicly available, Mr. Yakovlev could expeditiously provide Volga-Dnepr with such

⁵ It should be noted that Volga-Dnepr Ireland was the chosen company to deal with the UN in light of the fact that the UN payments were so often substantially delayed that they violated Russian currency regulations with respect to timely payment of invoices. It was this problem that forced Volga-Dnepr to deal with the UN through its Irish subsidiary.

⁶ United Nations General Conditions of Contract, Article 2.0 states: "The Contractor shall neither seek nor accept instructions from any authority external to the United Nations in connection with the performance of its services under this Contract. The Contractor shall refrain from any action that may adversely affect the United Nations and shall fulfill its commitments with the fullest regard to the interests of the United Nations."

United Nations General Conditions of Contract, Article 6.0 states: "The Contractor warrants that no official of the United Nations has received or will be offered by the Contractor any direct or indirect benefit arising from this Contract or the award thereof. The Contractor agrees that breach of this provision is a breach of an essential term of this Contract."

information. Critically, Volga-Dnepr was aware that Mr. Yakovlev had no jurisdiction over the Company's product line or services, air transportation. Volga-Dnepr's intent was for the agent to resolve issues critical to the financial and operational ability of the Company.

Given the improved United Nations procurement practices, which included securing the fax machine that received the bids in a closed and sealed room as well as the collective opening of that room by a committee of three people after the close of the bid, neither Mr. Yakovlev, nor anyone else, would have been physically able to have access to any bidding information prior to the formal opening of the submitted bids.

Nor was Mr. Yakovlev ever asked to exert any subjective influence in Volga-Dnepr's favor in the process of bid awards. A review of all of the bids awarded to Volga-Dnepr will prove that Volga-Dnepr won them solely as the low bidder, without any subjective factors, such as scheduling, past performance, or quality record, that could have theoretically been susceptible to undue external influence. As such, Mr. Yakovlev could not have provided Volga-Dnepr with insider information pre-bid on pricing to allow Volga-Dnepr to adjust its bids. Indeed, Mr. Yakovlev confirmed this in his sworn testimony noting that he played "no role" in the selection of what company would win the bids that Volga-Dnepr participated in.⁷

In sum, Volga-Dnepr acted in good faith and did not intend to adversely affect the United Nations. Demonstrating its good faith, Volga-Dnepr established an explicit contractual relationship with Mr. Yakovlev through Moxycyco requiring that he provide guidance and assistance to Volga-Dnepr in conformity with the regulations and practices of the United Nations. Since Mr. Yakovlev had no authority over Volga-Dnepr's commodity group, the Company did not consider that such an agency arrangement may be in conflict with United Nations regulations and rules. Instead, Volga-Dnepr perceived its relationship with Mr. Yakovlev as similar to other agency relationships that are common within the air cargo transportation industry.

c. Volga-Dnepr's Actions Did Not Constitute Bribery and Corruption Because the Company Lacked Corrupt Intent and Did Not In Fact Receive Preferential Treatment or Seek to Obtain Confidential Documents and Information

Volga-Dnepr's payments to Moxycyco did not constitute bribery and corruption because of its lack of corrupt intent as stipulated in comparable statutory provisions and relevant case law. In addition, the factual circumstances do not support the Task Force's bribery and corruption finding because Mr. Yakovlev did not have commodity group jurisdiction over the Company bids; he did not influence the procurement of its bids; and Volga-Dnepr did not receive preferential treatment. Further, Volga-Dnepr did not seek to obtain confidential documents and information, but rather general consulting services, including ready access to publicly available documents and information.

1. Volga-Dnepr's Acts Were Not "Bribery" and "Corruption"

"Bribery" and "corruption" are terms of legal significance. The United Nations defines "bribery" as "the act of unduly offering, giving, receiving or soliciting anything of value to influence the process of procuring goods or services, or executing contracts."⁸ "Corruption" is not defined in the Procurement Manual. Instead, the United Nations offers a non-exhaustive list

⁷ *United States v. Kuznetsov* (S.D.N.Y. 2007), Yakovlev Testimony, 72RVKUZ3, at 151.

⁸ See United Nations Procurement Manual, 4.3(2)(a).

of definitions of the “most common types of corrupt practice” including “bribery.”⁹ In order to apply those terms accurately, the Task Force must establish specific elements, which Volga-Dnepr believes that it has not done.

Since these “offenses” in the United Nations Procurement Manual have not been defined by the courts, Volga-Dnepr maintains that the Task Force should be guided by the case law interpreting two comparable statutory provisions: 18 U.S.C. § 201 (relating to “corruption” and “bribery”) and 18 U.S.C. § 666 (relating to “bribery”). As will be shown *infra*, the Task Force has not established “bribery” or “corruption” under either of these two federal statutes, as interpreted by the courts. In all key respects, the text of the United Nations Procurement Manual substantially tracks that of Sections 201 and 666, even though Section 201 only applies to “public officials” or those acting in official functions and Section 666 requires proof of federal funding.

Section 201, sometimes referred to as the “general” anti-bribery statute¹⁰, provides that it is unlawful to “directly or indirectly, *corruptly* give[], offer[] or promise[] anything of value to any public official . . . *with intent* . . . to influence any official act . . . or . . . to induce such public official . . . to do or omit to do any act in violation of the lawful duty of such official.”¹¹

Section 201 does not categorically outlaw all offers to pay or payments to those who hold official positions without regard to what the offer or payment is for. Rather, the law only prohibits offers or payments *with intent* to: (1) influence an “official act”; (2) influence the commission of a fraud on the government; or (3) induce a public official “to do or omit to do any act in violation of the lawful duty of such official.”¹² Courts have accordingly defined the *quid pro quo* proscribed by this law as involving “the giving of value to procure a specific official action from a public official.”¹³

Section 666 provides that it is unlawful “to *corruptly* give[], offer[], or agree[] to give anything of value to any person, *with intent* to influence or reward an agent of an organization . . . in connection with any business, transaction, or series of transactions of such organization.”¹⁴ Section 666 similarly requires an intent to induce “official” action – such as the award of a particular contract – and not mere advice related to contract payment and implementation process. With respect to Section 666, the Second Circuit has held that “[a] fundamental component of a ‘corrupt’ act is a breach of some official duty owned to the government or the public at large.”¹⁵ Thus, the proscription of Section 666 cannot be extended to conduct that does not evidence an intent to gain some advantage inconsistent with an official duty.¹⁶

⁹ See United Nations Procurement Manual, 4.3(1).

¹⁰ See *United States v. Ford*, 435 F.3d 204, 211 (2d Cir. 2006).

¹¹ 18 U.S.C. § 201(b)(1)(A),(C) (emphasis added).

¹² 18 U.S.C. § 201(b)(2)(A)-(C).

¹³ *United States v. Alfisi*, 308 F.3d 144, 149 (2d Cir. 2002); see also *Valdes v. United States*, 475 F.3d 1319, 1324 (D.C. Cir. 2007) (en banc) (“It is the corruption of official decisions . . . which the bribery statute makes criminal. . . . [B]oth our precedent and the language of the statute make clear that § 201 is not about officials’ moonlighting, or their misuse of government resources, or the two in combination.” (internal quotation marks and citation omitted)); *United States v. Sun Diamond Growers of Cal.*, 526 U.S. 398, 404 (1999) (unanimous decision) (201 requires intent “‘to influence’ an official act”).

¹⁴ 18 U.S.C. § 666(a)(2) (emphasis added).

¹⁵ *United States v. Rooney*, 37 F.3d 847 (2d Cir. 1994).

¹⁶ *Id.* (Section 666 conviction reversed where developer of a federally-funded housing project offered to pay a contractor monies already due more quickly in return for additional work by the contractor at no cost).

2. The Facts Clearly Support a Different Conclusion than That Drawn by the Task Force

Volga-Dnepr's conduct fails to qualify as "bribery" and "corruption," under the United Nations Procurement Manual or under Sections 201 and 666. There are many key facts that support Volga-Dnepr's argument that its acts did not constitute "bribery" and "corruption," many of which are uncontraverted and supported by sworn testimony of Mr. Yakovlev himself.

Volga-Dnepr's acts did not constitute bribery and corruption because Mr. Yakovlev did not and could not provide assistance in the preparation or awarding of United Nations procurement. Mr. Yakovlev did not have commodity group jurisdiction over the Company bids. When establishing its agency relationship with Yakovlev, Volga-Dnepr was aware that Yakovlev had no jurisdiction over the Company's product line or services, air transportation. Indeed, Mr. Yakovlev could not have possessed the information necessary to advise Volga-Dnepr on pricing as bid procedures by that time had precluded the ability for such information to be leaked as it had been in the past (pre-2000). In addition, pricing and preparing bids in the outsized cargo market requires unique expertise and particular knowledge of the industry and the aircraft involved. Only Volga-Dnepr commercial officers prepared its bids because only such experts would be able to accurately measure the precise parameters involved including the geographic location of aircraft and crew, the costs of maintenance and insurance, and the fluctuating price of fuel. Mr. Yakovlev neither was in the position nor possessed the knowledge to promote, prepare, or price Volga-Dnepr bids.

It is important to note that Volga-Dnepr's success in winning bids is also attributable to the Company's unique services based on its knowledge of the outsized cargo market and its control of the AN-124-100 aircraft. Today, for example, Volga-Dnepr leads the air transportation international market for extra-heavy and oversize cargo accounting for approximately 56% of the market. The Company has developed cargo services to more than 140 countries allowing it to service its customers worldwide. These flights are primarily conducted by the unique heavy-duty cargo AN-124-100 aircraft, with a payload capacity of up to 120 tons. With 10 such aircraft, the Company leads the industry in the area of development and introduction of new technologies for operation of the AN-124-100. Volga-Dnepr specialists have developed unique aircraft capabilities, which make it possible to transport out-sized cargo, which was previously solely transported using ground and sea transportation. It was this distinct expertise, specialized capability and lowest price, not the influence of Mr. Yakovlev, which made Volga-Dnepr a winning participant in United Nations peace-keeping and humanitarian missions.

Volga-Dnepr's relationship with Mr. Yakovlev did not constitute bribery and corruption because the Company did not receive preferential treatment. As noted, Volga-Dnepr did not seek and Yakovlev could not provide any preferential treatment in the preparing and winning of bids for the Company's unique services. Instead, the Company primarily sought, through Mr. Yakovlev, proper and timely payment for past performance. If this conduct is to be qualified as "preferential treatment" allegedly sought by Volga-Dnepr, it was precipitated by the wrongful behavior of the United Nation's in failing to timely pay its invoices. The United Nations delinquency in paying the Company caused it to lose millions of dollars, as it had to secure loans with extremely high interest of 12% to 14% to provide it with working capital. Under these circumstances, Volga-Dnepr's payment to Mr. Yakovlev of 2-2.5% of the amounts collected from the United Nations was a relative bargain. When offering payment to stanch the United Nations' arrears, Volga-Dnepr only sought that to which it is legally entitled.

Volga-Dnepr's relationship with Mr. Yakovlev did not constitute bribery and corruption because the Company did not seek to obtain confidential documents and information. Instead, through Mr. Yakovlev, the Company sought general consulting services, including ready access to publicly available documents and information. The types of information and documentation that Volga-Dnepr expected Mr. Yakovlev to provide included, primarily: (1) information with respect to the status and procedures of payment of Volga-Dnepr's invoices; (2) information regarding safety, insurance and security requirements that the UN was adopting at that time, as well as various issues related to compliance with such regulations; (3) information on the actual situation in the regions of UN missions operated by Volga-Dnepr; and (4) post-bid information with respect to pricing of the already awarded bids information on the actual situation in the regions of UN missions operated by Volga-Dnepr. Volga-Dnepr does not believe that any of such information could be considered to be confidential. Specifically, for example, documentation provided to the Task Force clearly shows that the post-bid information was provided to Volga-Dnepr after the bids were opened and awarded. Further, the UN typically failed to provide operational information related to particularly dangerous areas where flights occurred. This is the type of information of critical safety and security related information that Volga-Dnepr sought and received from Mr. Yakovlev.

As noted earlier, Mr. Yakovlev served as a key point of contact, which could direct Volga-Dnepr to the proper authorities to resolve other issues and complaints. In addition, Mr. Yakovlev assisted the Company with remaining current with the changing legal, technical or safety requirements of the United Nations. While these documents and information were publicly available, the service Yakovlev provided was efficiency and detailed knowledge of the United Nations system. Volga-Dnepr continues to believe that it was entitled to receive all that information in the normal course of its business with the United Nations.

To ascribe "bribery" and "corruption" to Volga-Dnepr when it received no more than that to which it was entitled is wrong. From the Company's perspective, Mr. Yakovlev's willingness to provide the assistance described was not inconsistent with any duty that he owed to the United Nations, in so much as his assistance enabled Volga-Dnepr to ultimately provide a higher quality of service to the Organization under contracts it had been competitively awarded. Thus, the Task Force's charges of "corruption" or "bribery" simply do not lie. See *Alfisi*, at 149; *Rooney* at 852-53. The Task Force needs to re-consider Volga-Dnepr's position and its documents which clearly evidence this point.

III. Conclusion

Volga-Dnepr never intended to violate United Nations regulations and rules or adversely affect the interests of the Organization. Volga-Dnepr sought to fulfill its commitments and serve the interests of the United Nations within the context, practice and evolution of the UN procurement process. From the very beginning, Volga-Dnepr knew that Mr. Yakovlev had no authority over Volga-Dnepr's commodity group, and never expected him to provide any inappropriate assistance with its bidding process. Unlike other entities under investigation, Volga-Dnepr attempted to ensure that its relationship with Mr. Yakovlev was permissible through specifically negotiated contractual language. In the context of its current development as well as the recent revelations related to UN procurement procedures, the Company recognizes that this was not a sufficient step, and it will endeavor to implement further systems and controls to fully prevent such instances from occurring in the future.

In closing, Volga-Dnepr reiterates that it has sought, throughout its relationship with the United Nations, to act in good faith and to meaningfully cooperate with the Task Force

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investigation. Accordingly, the Company has submitted this response to clarify any misunderstandings and identify any ungrounded assumptions evidenced in the Task Force's Preliminary Conclusions. In addition, by revisiting the facts and circumstances of this matter, Volga-Dnepr hopes that this response may assist the Task Force in faithfully fulfilling its investigative mandate to conduct a dispassionate professional exercise by clearly establishing the facts and drawing reasonable conclusions from those facts without resorting to unnecessary and erroneous labels such as bribery and corruption.

Wherefore, the Company respectfully requests that the Task Force fully evaluate and genuinely consider the comments and information provided in this response. Volga-Dnepr values the United Nations as its customer, and, sharing the goals of peace keeping and disaster relief pursued by the Organization, hopes to have an opportunity to further serve the United Nations in the future.

Sincerely,

A handwritten signature in blue ink, appearing to read "Glenn P. Wicks".

Glenn P. Wicks
Counsel for Volga-Dnepr Airlines,
Volga-Dnepr (Ireland), Ltd.