

**PetroSaudi's US\$1 billion ruse**  
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Barely a month after the Finance Ministry took over Terengganu Investment Authority (TIA), a royal suitor came a-knocking.

On Aug 8, 2009, Prince Turki of Saudi Arabia sent a letter to Prime Minister Najib Abdul Razak to introduce PetroSaudi International chief executive Tarek Obaid.

Tarek proposed a joint venture with the fund, now rebranded 1MDB. The deal - US\$1 billion from 1MDB and some questionable "oil wells" in Argentina and Turkmenistan said to belong to PetroSaudi International.

But this was not Tarek's first introduction to the fund.

According to the Hansard of the Public Accounts Committee (PAC) hearings on 1MDB, then chief executive officer Shahrol Azral Ibrahim Halmi said Tarek was first introduced to TIA through TIA's special advisor, businessman Jho Low.

Low's involvement continued and at one point he showed up at a 1MDB board meeting to speak on behalf of Prince Turki and Tarek to convince the skittish board to sign off on the joint venture.

Ten days after the board first heard of the deal, it was signed on Sept 28, 2009 - leaving the board "angry" and prompting board member Bakke Mohd Saleh to resign.

"The Auditor-General's Department's analysis concludes that the decision to invest in the joint venture 1MDB PetroSaudi Limited was done without strategic planning due to the short period of eight days (lead time), was conducted without detailed evaluation and before issues raised by the board was resolved.

"The joint venture agreement also included clauses which did not protect 1MDB's interest," the Public Accounts Committee's report table at the Dewan Rakyat on Thursday says.

Forty-eight hours after the joint venture was inked, an unrelated company - allegedly Low-linked Good Star Limited - is US\$700 million richer.

How did this dubious deal take place under everyone's noses? Follow the chronology of events below.

**Aug 28, 2009** - Najib receives a letter from one Prince Turki. Along with the letter is an introduction to PetroSaudi International by its chief executive Tarek Obaid to propose a joint venture.

**Sept 18, 2009** - 1MDB board meeting learns of the joint venture proposal for the first time through a project paper approved by 1MDB chief executive Shahrol (photo) and presented by 1MDB business development executive director Casey Tang.

(According to a leak by ex-PetroSaudi employee Xavier Andre Justo, Tang was allegedly part of an elaborate move to use 1MDB funds to buy UBG Bank.)

Tang tells the board the joint venture is a government-to-government deal and PetroSaudi belongs to Saudi Arabia's King Abdullah Abdulaziz Al Saud and was founded in 2000. (PAC says this is a lie. The firm was founded privately in 2005, not state-owned. Tarek and Prince Turki are its directors)

The board instructs the management to do the following:

- Three directors (including two with professional oil and gas backgrounds) appointed onto the joint venture;

- PetroSaudi gives its part of the JV in cash of at least US\$1 billion or assets of equivalent value;

- Conduct due diligence of PetroSaudi;

- 1MDB board member and then Felda Holdings managing director and 1MDB director Bakke Salleh and Shahrol to represent 1MDB in meetings on the joint venture.

None of these were complied with. Tang was appointed as 1MDB representative on the board, instead of Bakke.

Unbeknownst to the board but with Shahrol's knowledge, two entities are set up in two separate tax havens - 1MDB PetroSaudi Limited (in British Virgin Islands) and PetroSaudi Holdings (Cayman) Limited.

1MDB PetroSaudi Limited BVI is set up as a subsidiary of PetroSaudi Holdings Caymans.

**Sept 20, 2009** - Valuer Edward L Morse informs the 1MDB management that he has been appointed by PetroSaudi to assess the oil field asset put forth by PetroSaudi, but the board is not notified on the matter.

**Sept 25, 2009** - 1MDB PetroSaudi (BVI) receives an advance loan of US\$700 million from its parent firm PetroSaudi Caymans, to be paid in full by Sept 30.

The loan agreement is signed by PetroSaudi chief executive Tarek, representing both 1MDB PetroSaudi (BVI) and PetroSaudi Caymans. (The Auditor-General's Department is unable to authenticate the loan agreement.)

**Sept 26, 2009** - Businessman Jho Low attends 1MDB board meeting as a representative of Prince Turki to explain the joint venture deal from the perspective of PetroSaudi.

(Shahrol tells PAC later the board had wanted to hear from Prince Turki and Tarek directly, but they could not make it to Kuala Lumpur at a short notice.)

Low gives the board the impression that PetroSaudi belongs to King Abdullah.

1MDB board holds a special meeting to discuss whether the firm should go ahead with the joint venture. They agree to part with US\$1 billion but only if a professional independent valuation is done on the assets.

**Sept 28, 2009** - 1MDB-PetroSaudi joint venture deal is signed in Kuala Lumpur without board consent. It is witnessed by a Prince Turki. PetroSaudi is represented by Tarek Obaid while 1MDB is represented by Shahrol.

1MDB gives US\$1 billion for 40 percent stake while PetroSaudi puts up assets of “oil wells” in Argentina and Turkmenistan said to be worth US\$1.5 billion for a 60 percent stake. 1MDB must fork out the cash in the next two days.

The US\$700 million advance loan shows up in a clause of the agreement.

**Sept 29, 2009** - Shahrol signs the appointment letter for valuer Edward L Morse on the same day the valuer submits his report.

The report says the oil fields were never assessed by a geologist nor is there an exploration permit issued. Ownership of the oil fields are also disputed by various parties. The Argentinian oil field is also not tradeable.

PetroSaudi is also found to have no liquid capital to match the asset.

**Sept 30, 2009** - Bank Negara Malaysia approves 1MDB's transfer of US\$300 million to the joint venture's JP Morgan bank account, with the remaining US\$700 million goes to a RBS Coutts Bank Ltd account.

But the RBS Coutts account which received the lion's share belongs to a firm unrelated to the joint venture - Good Star Limited, a firm linked to Jho Low.