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Saudi royal oil group at heart of 1MDB case

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US investigators claim \$1bn of Malaysian funds for PetroSaudi venture were siphoned off

MICHAEL PEEL, ANJLI RAVAL AND DAVID SHEPPARD — LONDON

It is the tale of a little-known but well-connected oil company that was co-founded by a Saudi prince and claims to be a “partner of choice” for multinationals. But US authorities have now left PetroSaudi International grappling with questions over its dealings with the scandal-racked 1MDB, the Malaysian state wealth fund.

US investigators last week threw their weight behind longstanding claims that \$1bn of Malaysian public money meant for 1MDB’s joint venture with PetroSaudi was instead siphoned off to a Malaysian businessman, who splurged millions on art, partying and even a Hollywood film.

Officials from the US Department of Justice allege that \$20m of the total was sent to the unnamed PetroSaudi prince then again to an unnamed top Malaysian official, whose description corresponds to that of Najib Razak, the country’s prime minister.

PetroSaudi has denied any wrongdoing and rejected any claims of involvement in misappropriation of funds from 1MDB. It says it is not aware of any investigation into its conduct, but will co-operate with any official requests for assistance. Mr Najib has also denied any wrongdoing in connection with 1MDB, whose advisory board he chaired.

The US court case, launched last week to recover money allegedly looted from 1MDB, provided the most extensive detail so far on the alleged transactions,

including those involving the 1MDB-PetroSaudi joint venture.

The US action is one of several probes spanning continents into claims of multibillion dollar corruption in 1MDB’s international dealings. PetroSaudi is neither a defendant in the US case nor accused of any crimes.

PetroSaudi was founded in 2005 as a private oil company by Prince Turki bin Abdullah bin Abdel Aziz, a son of the late King Abdullah, and his business partner, Tarek Obaid, a former banker. The company grew from drilling and oilfield management into trading, opening offices in London’s Mayfair district that have pictures of Saudi royalty and are decked with national flags.

The company also attracted high-profile individuals from western business as advisers, including Rick Haythornthwaite, chairman of Centrica and MasterCard, who advised on oil exploration. Tony Blair Associates, the consultancy set up by the former UK prime minister, has said it did a few months of advisory work for PetroSaudi almost six years ago, on business in Asia not linked with Malaysia. PetroSaudi’s website lists projects in Ghana, Indonesia, Venezuela and Tunisia.

The 1MDB-PetroSaudi joint venture first attracted scrutiny last year after Xavier Justo, a former PetroSaudi executive, leaked corporate emails that were covered on the Sarawak Report investigative blog. Mr Justo is serving a three-year sentence in a Thai jail after pleading guilty in August 2015 to blackmail in relation to the documents.

At the heart of the 1MDB-PetroSaudi relationship is a 2009 agreement for the Malaysian fund to invest \$1bn in a joint venture in exchange for the Saudi company bringing in mineral extraction concessions in Turkmenistan and



Going for growth: a man walks past a 1MDB billboard at a development in Kuala Lumpur last year — Olivia Harris/Reuters

Dispute Deloitte resigns as third auditor

Deloitte has resigned as auditor of 1Malaysia Development Berhad, as the scandal surrounding the Malaysian state investment fund reverberates through the global financial system.

Late on Tuesday 1MDB said its audited financial statements for 2013 and 2014 should no longer be relied on following a US Department of Justice complaint last week alleging an international scheme to siphon more than \$3.5bn from the fund.

Deloitte, which notified 1MDB of its intention to resign in February, said the DoJ complaint contained information that, if known at the time of the audits, “would have impacted the financial statements and affected the audit reports”.

The professional services firm has been drawn into a dispute over a \$1.4bn mismatch in dealings between 1MDB and an Abu Dhabi investment fund, International Petroleum Investment Company.

The DoJ alleged last week that about \$1.4bn had been transferred by 1MDB officials to a British Virgin Islands entity with no genuine affiliation to Ipic.

Deloitte is the fund’s third auditor. EY’s contract was terminated before 1MDB submitted its first financial statement, and KPMG was dumped on New Year’s Eve 2013 — after the fund refused to provide information regarding assets in the Cayman Islands, according to a Malaysian parliamentary inquiry.

1MDB has not yet filed a financial statement for 2015. Jeevan Vasagar in Kuala Lumpur and Jennifer Thompson in Hong Kong

Argentina allegedly valued at \$2.7bn, according to the US complaint.

Some 1MDB officials and others then allegedly arranged for the fund’s share of the cash to be fraudulently transferred to a Swiss bank account controlled by a Malaysian businessman and impresario, Jho Low. The DoJ court filing claims Mr Low laundered more than \$400m into the US, using at least \$106.7m to acquire a stake in EMI Music Publishing Group North America Holdings Inc.

Mr Low has not responded to a request for comment submitted through Jynwel Capital, his family’s Hong Kong-based company. He has previously denied any wrongdoing.

The DoJ case also focuses on \$24.5m allegedly sent in tranches in February and June 2011 from the account run by Mr Low to a Riyadh account in the name of a man described in the complaint as a Saudi prince who co-founded PetroSaudi. All but \$4.5m of these funds were then allegedly transferred again within days to a person dubbed “Malaysian

Official 1”, whose biography and responsibilities outlined in the DoJ case match those of Malaysia’s prime minister.

Mr Najib has faced opposition pressure to resign since it emerged last year that he received \$681m into his personal bank account in 2013 — money the country’s attorney-general has said was a gift from the Saudi royal family.

People close to the matter confirm that the two co-founders of PetroSaudi referred to in the DoJ complaint are Prince Turki and Tarek Obaid. Neither has been accused of any wrongdoing. According to the company, Prince Turki ceased to be a shareholder in 2013.

PetroSaudi maintains all the funds and transfers related to the joint venture with 1MDB — which ended in 2012 — have been properly accounted for. It says it would not be appropriate to comment further. Prince Turki could not be reached for comment. A Malaysian government spokesman did not respond to a request for comment.

Additional reporting by Kara Scannell