

**EXPERT WITNESS STATEMENT**  
**OF MR. PHILIPPE MORTGÉ,**  
**EXPERT IN FORENSIC ACCOUNTING**

**Personal situation**

1. I, Philippe Mortgé, am resident at 4, route de l'Usine-à-Gaz, 1219 Aire, in the Canton of Geneva, Switzerland. I am a Swiss citizen, born on 28<sup>th</sup> November 1969 in Geneva. I work as forensic expert in accounting and am partner at ECG Société Fiduciaire, with its offices at 16, avenue Wendt, 1203 Geneva. I also work as director (*administrateur*) in some ten companies formed and existing under Swiss law and am also a director of various companies formed and existing under other laws, principally in the U.S. and on Mauritius Island.
2. I declare and confirm that prior to be instructed to provide my expertise as covered in this statement, I have never had any contact with Beverly Securities Ltd. (UK) and Beverly Securities Inc. (Panama), which are described below. In providing my testimony herein, I do so as an independent and impartial expert witness.

**Education and professional experience**

3. As part of my professional studies, I started as an apprentice in 1986 in Geneva in the Fiduciaire Claude Jeanneret & Cie. I obtained three years of professional experience in various types of activities relating to a financial company, including the following:
  - Preparation and review of tax declarations for individuals and companies;
  - Preparation and review of financial statements for companies governed by Swiss Law; and
  - Operating initial accounting programs for the account of various small companies.
4. At the end of this period, I obtained a Swiss "*Certificat Fédéral de Capacité*", in the field of company management.
5. Following this certification, I was employed as accountant in the "Société Fiduciaire Suisse" (whose name has later been modified), in Geneva where I acquired experience as to:
  - Tax optimisation;
  - Accounting for companies established under and governed both by Swiss law and foreign law;

- Continuous monitoring of performance of investment portfolios for clients; and
  - Consolidation of accounts.
6. During the same period, I had a continuous education of two years during 1996 and 1997 and obtained the “*Brevet Fédéral*” of fiduciary agent from the Fiduciary Chamber in Lausanne.
  7. As from 1999, I became a partner in the fiduciary company, ECG.
  8. Today, I have about 20 years professional experience, in the field of accounting, including the analysis and understanding of various accounting systems used in commercial activities in various parts of the world. In terms of accounting expertise and forensic accounting, I have particularly expanded my capacities as follows:
    - analysis of accounting records and taxation of companies registered under Swiss law;
    - tax optimisation for foreigner clients;
    - analyse and follow-up of portfolio performances; and
    - the setting-up and operation of investment solutions through banks and insurance companies.
  9. My 20 years’ experience in the field of company management has permitted me to become familiar with this type of corporate financial operations. On these bases, I was to analyze and to draw conclusions relating to the operations indicated on the files which the law firm Bonnard Lawson transmitted to me as described below.

**Nature of instructions placed with me by the law firm Bonnard Lawson relating to claims by BSL/BSI against Armscor, KBL and others**

Scope of the reference

10. It concerns claims by Beverly Securities Ltd (UK) (“BSL”) and Beverly Securities Inc. (Panama) (“BSI”), represented by the Geneva law firm, Bonnard Lawson who appointed me to analyze and to advice on matters connected with the claims. For this purpose, I was given a clear briefing and access to witness testimonies and, additionally, hard copy and online copy of certain relevant data.
11. To assist my research and analysis exercises, I took early the opportunity of engaging with Mr Daniel Loubser, the former Armscor financial controller who had created a method of data recording which accommodated a contemporaneous record of activities processed by Armscor and its main European banker, KBL. It became apparent that the aim of this method of data recording, in which the account and transaction information was kept under strict secrecy, was to organise

and to mask from third parties the data recorded by Armscor, for example, in its dealings with Aérospatiale, for deliveries of helicopter parts for upgrading helicopters and other parts and services. Furthermore, the method of data recording was used for other Armscor activities which were covered by many different code-named projects.

12. Before going into more detail about this specific and special accounting system, I would like to summarize the principal information transmitted to me by Bonnard Lawson, to place in context the underlying facts of the case for which I was appointed:

- a sale/purchase agreement for search and rescue (SAR) helicopters' upgrade kits and other related materials and services was concluded between the French company Aérospatiale and the South-African company, Armscor, in the mid-1980's. The purchase arrangement has been code-named by Armscor itself, as "Project Adenia", in respect of which activity commenced in 1989, carried on through the 1990's and, in a maintenance and repair sense, continues even now.
- In this context, BSL and BSI, who had at the time (and still have) a presence in Portugal, were approached by Armscor through their representative, Mr Jorge Pinhol, to act as agent to assist Armscor to arrange that the goods purchased in Project Adenia would transit via Portugal with the agreement of the Portuguese Defence Establishment. This is referred to as "the Portuguese channel."
- The negotiation of the terms for obtaining and operating the Portuguese channel, were achieved specifically and uniquely as a result of the services of BSL and BSI. Those services were provided between 1986 when the questions were first raised with the appropriate Portuguese Generals and in particular in 1989 when the deliveries under Project Adenia actually began through the Portuguese channel.
- The full extent of why Armscor wanted to obtain and use the Portuguese channel was not explained to BSL/BSI, who understood, at the time, that the goods were purchased in Project Adenia, that such goods were not arms or military goods embargoed at the time by the U.N. and the E.U. in support of the Apartheid regime in South Africa.
- Nevertheless, it appeared to BSL/BSI that political sensitivities associated with any trade activities with South Africa were behind the desire to open a new and "top secret" delivery channel through Portugal.

- Consistent with its desire to keep secret its deliveries from Aerospatiale, Armscor also wanted to “mask” the payments to Aérospatiale and has consequently, with the assistance of the KBL and its trust company Kredietrust (“KT”), set up a network of offshore shell companies through which these transfers could be made without disclosing either the source of funds or the reasons for the payments. The format involved a particular modus operandi where straw directors (“tame directors”) delegated control of accounts which KBL opened for the offshore shell companies to Armscor’s personnel.
- A large number of such shell companies received payments on several accounts opened at KBL, from which payments could be made to the various suppliers, including Aerospatiale. There were also opened many “numbered” accounts, which were referred to in the Armscor accounting system as “jump accounts” to which funds were transferred, often through intermediary banks or cash withdrawal and deposits (to break the audit trail), from Armscor’s own bank in South Africa.
- It appears that to maintain control of BSL/BSI, particularly for not disrupting the Portuguese channel that an account was also opened, at request of Armscor, in February 1990 at KBL in the name of and on behalf of BSL. This account was opened for the specific purpose of receiving the pro rata commission payments to equivalent to 10% of the total value applicable to the Project Adenia contract.
- The commission due from Armscor was never paid. The accounting records I reviewed showed that this KBL bank account no 210370 opened on behalf of BSL appears to have been closed presumably on Armscor’s instruction in 1991 or 1992, without BSL or its representative being informed by KBL.
- Despite Jorge Pinhol asking several times to Mr Germain Ménager (legal director within KBL), this latter refused to answer about the account of BSL. In their final phone conversation, Mr Germain Ménager abruptly informed Jorge Pinhol that, as far as he was concerned, the account was closed and any questions should be directed to Armscor; he then hung up.

Specific exercises for analysis of the data and the transactions

13. With this factual background in mind, I was requested by Bonnard Lawson to check a number of points relating to the accounting system and the data it contained. Initially I was requested to undertake the following tasks:



- To take cognizance of the various files of transaction and account data (a listing is set forth in Annex 2 to this statement)
  - To cross-check the sets of data to understand their meaning and significance, including particularly the codes used (corresponding, for example to the shell companies, to the bank account numbers, or to the transaction numbers or project);
  - To reprocess the accounting data using suitable computer methods in order to retrace and track the payments done by Armscor in any one transaction, in order to be able to identify, especially the source of the funds, the jump account(s) used, the transit shell company or companies used, including the name(s) of the bank(s) and into what account the final payment to the beneficiary or supplier was made and on what dates all these transactions occurred;
  - After having thus retraced specific Armscor financial transactions, to link those transactions, as far as possible, to trading projects of Armscor, in particular those associated with Project Adenia, and to identify the type(s) of goods or services being purchased.
14. In completing this assignment I thereafter analysed more than 20 files of data, representing about 4000 transactions. It appears that some of the files were not complete and that some others related to the years 1992 to 1994 were missing. Nevertheless, as I could go through the transactions of 1991 and of 1994-1995 in detail, which transactions are, according to the information passed to me by Bonnard Lawson or personally by the former members of the special unit of Armscor, representative of all of the Armscor financial transactions for international trading activities made from, in or about 1986. Those that I had available to analyze themselves represented a very significant volume of payments. Together the total amounts made to final suppliers' accounts rose to the equivalent of USD 307,179,795.
15. I was able, as a first step to produce two tables on Excel set forth an important amount of information. These tables can be described as follows:
- a. **Table 1 is named "Supplier Table"** (Enclosed as Annex 3). The columns of this table correspond to:
    - the code used by Armscor (named "LNO"), identifying the various suppliers to Armscor (including Aérospatiale, whose name was changed to Eurocopter)
    - the names of the various suppliers;

- the names of the beneficiary of payments, meaning that most of the time, suppliers and sometimes, intermediaries receiving payments on behalf of the suppliers;
  - the name of the bank of the suppliers;
  - the account number on which the payment is received;
  - the counter code of the bank which was used;
  - the swift code of the bank which was used;
  - the shell company codes (named "DNO"), made up of 3 numbers, indicating which company was used for the payments, plus 2 numbers, identifying which bank account the company used for the transaction; and
  - other codes which could not then be resolved.
- b. **Table 2 is named "Companies Table"** (enclosed as Annex 4). The columns of this table correspond to:
- codes identifying the screen companies set and used by Armscor;
  - code-named "DNO" listing, made up of 3 numbers identifying a screen company and 2 numbers identifying the account number;
  - codes identifying the type of transaction (as A for client, B for secretariat...);
  - names of the banks where screen companies had accounts;
  - type of account (nominative or numbered account);
  - dates of opening and closing the bank accounts;
  - names of the local directors of the screen companies;
  - the registered number of the screen companies;
  - a system of codes, which are still unknown today;
  - the currency of the accounts;
  - the course of the transactions planned by Armscor;

- comments on some of the transactions;
  - the channels used for the transactions;
  - the currency and amounts of the payments;
  - the registered dates of the screen companies;
  - the dates of their certification;
  - the dates of the arrival of payments, and
  - the persons authorised to sign.
16. In view of their size, these two tables are saved on a CD-Rom, but to have a first idea on their content, they are printed on A3 version (Annexes 3 and 4).
17. During my research and analysis exercise, I engage with the former Armscor employees in order to clarify matters arising. The exchange to which I refer involved, amongst others, the accountant, within Armscor office at the South African Embassy in Paris who was responsible for Armscor's accounting for its international trading activities.
18. By way of clarification of matters arising, additional data referred as to MBA91 and MBA94 was brought to my attention. This enabled me to produce a bespoke data base, using the Access program which allowed me to summarize the transactions done by Armscor through the various screen companies and banks, illustrated in small part in Annex 5. Annex 5 is a representative sampling of some of the important transactions shown in 22 graphs (audit trails) which appear to me to be particularly relevant in this case.

### **Some particular conclusions**

19. These documents which I have produced (tables and graphical representations in Annexes 3, 4 & 5) demonstrate the complexity of the payments made and the intervention of many shell companies in the payment channels. This type of operation is found in the classical cases of money laundering where shell companies are used to "mask" the real purpose relating to the movements of funds.
20. My analysis in Annexe 5 of the different operations relating to payment channels facilitated by KBL and some other banks to pay final suppliers through screen companies, can be summarized as follows:
- a. The diagram on page 1 demonstrates for example, that on 12 March 1991 an amount of USD 1,330,000 was paid from an

unidentified account in South Africa (referred to as "RSA") to a screen company account, code-named D52401, in the name of Turner Finance Systems Inc, domiciled in Liberia and holding account No. 52-269780-69 (code-named "WK Longding") at KBL in Luxembourg.

Following this payment, the shell company Turner Finance System Inc. ordered two payments.

The first of these, for an amount of USD 180,000 was ordered on 12 March 1991 (i.e. the same day) to the screen company code-named D28302 (which was ECP Finance, domiciled in Liberia), which owned account No. 52-601530-79 (code named "WK Medua") at KBL in Luxembourg. After receipt of these funds, this second screen company has ordered the payment on 14 March 1991, a payment of USD 180,151.64 to the final supplier, code-named L80043, which is Tamco (PTY) Ltd, who is the owner of account 2311856 at Bank Otasr Ha-Hayal Ltd in Isreal.

The second of these, for an amount of USD 1,170,000 was ordered on 12 March 1991 (also the same day) to the screen company code-named D51201, (which was Inter-Australec Inc, domiciled in Liberia) which owned account No. 52-250470-41 at KBL in Luxembourg. After receipt of these funds, this second screen company has ordered the payment also on 14 March 1991 of an amount of DEM 1,764,702.16 (against a countervalue of USD 1,130,562.74) to the final supplier, code-named L841, which was ITPM, owner of account no. 10714-00022 at Bank Doumi Day in Indonesia.

Breaks in the way in which data were recorded appeared deliberate for the purpose of disrupting audit trails, in particular to limit insight in respect of particular projects and trading activities. That said, it was possible to reach meaningful conclusions. For example, I note however that the suppliers in the particular case referred to above are situated in Israel and Indonesia, neither of which is known for the manufacture and supply of the kind of helicopter upgrade kits or other material which Armscor would traditionally be purchasing. It may well be payments to agents or payments which are made outside of the normal purchase contract arrangements, which I am informed, occurred with some regularity through the accounts maintained at KBL.

The obscure end trail referred to in the previous paragraph is illustrative of many "dark zones" where, in effect, the audit trail stops such that you cannot see the ultimate beneficiaries. In my capacity of a forensic accountant, I would ideally wish to have proper explanations as to where the trails lead to.



b. Looking at the diagrams on pages 3, 4 and 5 of annex 5, one sees that one of the listed final suppliers is Aerospatiale, which would suggest that these payment channel diagrammes are related to Project Adenia. These three pages, taken simply as examples from the thousands of payment transactions covered in the accounts files which I have reviewed equal to a total of USD1'170'214.74 in payments by Armscor to various suppliers, including Aerospatiale, of which USD 1'067'637.60 was paid to Aerospatiale. I was informed personally by the Armscor representatives with whom I engaged that such payment channels would be set up on a project by project basis and that the payments in these three diagrams are all related in one way or another to Project Adenia.

The diagram no 3 states that on 12 March 1991, an amount of FRF 2'260'000.00 has been transferred from "RSA" (Republic of South Africa) to a screen company D42303, which identity is unknown and which also holds account no 137904-59-C-T at Banque Paribas in Paris. On the same day, an amount of FRF 2'260'000.00 was ordered to the account D42303, EMB ACC, holder of the account no 00100 0036121 M at Banque Paribas in Paris.

At the same time, an amount of FRF 5'500.00 has been ordered on the 26 March 1991, from the screen company D49502, named Zandumec (PVT) Ltd, holder of account no 600/67699-61 (FRF) at the Banque Continentale of Luxembourg to screen company D42303, EMB ACC, holder of account no 00100 0036121 M at the Banque Paribas in Paris.

Following these two transactions, the screen company D42303, EMB ACC, holder of account 00100 0036121 M at the Banque Paribas in Paris, ordered fourteen transactions as follows:

- on 14 March 1991, an amount of FRF 160'000.00 has been transferred to supplier coded L70020, named Messier Bugatti, holder of account no 0400204 at the BFCE (Banque Française de Commerce Extérieure) in Paris, swift no BCFEFR-PP;
- on 14 March 1991, an amount of FRF 40'760.00 has been transferred to supplier coded L70011, named Microturbo SA, holder of an account, which number is unknown, at the BFCE in Toulouse, swift no BFCEFR-PP - 931;
- on 14 March 1991, an amount of FRF 5'214.00 has been transferred to supplier coded L70005, named Artus, holder of account no 04023943000-95 at the BFCE in Nantes;

- on 14 March 1991, an amount of FRF 1'161.00 has been transferred to supplier coded L70237, named Tecalmit Flexibles, holder of account no 0100103182S at the Banque Régionale de l'Ouest in Blois, bank code 10528, counter code 00001;

- on 14 March 1991, an amount of FRF 9'562.00 has been transferred to supplier coded L70013, named Sogerma, holder of account no 0430426800 at BFCE in Bordeaux;

- on 14 March 1991, an amount of FRF 481.10 has been transferred to supplier L70006, named Danzas H.P, holder of account no 00000000545B at the Banque Crédit Lyonnais in Paris, 10<sup>th</sup> arrondissement, bank code 30002, counter code 00414, key RIB 73;

- on 14 March 1991, a second amount of FRF 481.10 has been transferred to supplier L70006, named Danzas H.P, holder of account no 00000000545B at the Banque Crédit Lyonnais in Paris, 10<sup>th</sup> arrondissement, bank code 30002, counter code 00414, key RIB 73;

- on 14 March 1991, an amount of FRF 566.10 has been transferred to supplier L70006, named Danzas H.P, holder of account no 00000000545B at the Banque Crédit Lyonnais in Paris, 10<sup>th</sup> arrondissement, bank code 30002, counter code 00414, key RIB 73;

- on 14 March 1991, an amount of FRF 16'252.80 has been transferred to supplier L70010, named Lucas Air Equipment, holder of account no 0000401543H at the Banque Crédit Lyonnais in Paris, 10<sup>th</sup> arrondissement, bank code 30002, counter code 00414, key RIB 08;

- on 14 March 1991, an amount of FRF 5'719.20 has been transferred to supplier L70010, named Lucas Air Equipment, holder of account no 0000401543H at the Banque Crédit Lyonnais in Paris, 10<sup>th</sup> arrondissement, bank code 30002, counter code 00414, key RIB 08;

- on 14 March 1991, an amount of FRF 2'010'200.00 has been transferred to supplier L70002, named Aerospatiale, holder of account no 04157734021 at the BFCE in Paris;

- on 14 March 1991, an amount of FRF 2'684.24 has been transferred to supplier L70003, named Afnor Service Ventes, holder of account no 30368 00021092162 at the Banque Hervet in Paris, at Neuilly sur Seine;

- on 14 March 1991, an amount of FRF 5'186.86 has been transferred to supplier L70012, named Sarma, holder of account no 61080 B at the bank Crédit Lyonnais in Valence, swift CRLYFRPP VAL;

- on 14 March 1991, an amount of FRF 7'609.80 has been transferred to supplier L70024, named Ulmer Aeronautique , holder of account no 00021092162 at the Banque Nationale de Paris in Clichy, bank code 3004, counter code 00891, key RIB 84;

c. Looking at pages 2, and 6 to 17, one sees a large number of payments to Ofema in France as a final supplier to Armscor. On the basis of my discussions with the Armscor representatives with whom I engaged, I have reason to believe that these payments also are related to Project Adenia, as many of the items in the helicopter kits were obtained through other companies who were represented by Ofema. The total amount of these payments is FRF 124'277'281.29, that is USD 23'979'626.75.

#### **A specific look at the BSL account opened at KBL**

21. I now examine the particular account no 210370 opened for BSL at KBL. At page 22, we see a single example of movements on such account, from which we can note:
  - USD 32.20 were debited from the account on 4 January 1991 and appear to be payment of bank charges, and that
  - USD 32.20 have been credited on the account on 17 January 1991, being transferred from Airlift Sales Inc., apparently to cover the above mentioned bank charges.
22. I am informed by Bonnard Lawson that there is no known commercial or other relationship between BSL and Airlift Sales Inc., which would have supported the covering of these bank costs on BSL's behalf. BSL was not informed at the time that money was received in its account from Airlift Sales Inc., or the purpose of such payment.
23. On further investigations, it is apparent that the modest debit and credit entries referred to above were in reality charges imposed by KBL for opening and maintaining the BSL account and for setting those charges.
24. In addition, there is no information in the records I reviewed relating to the payment of any commission into the BSL account.



25. This information appears also in table no 1 (table of suppliers) (Annexe 3), which confirms the existence of the BSL account at KBL and that such account was opened on the 8<sup>th</sup> February 1990.
26. Another piece of information, which comes out of my analysis of the documents, supports my conclusion that KBL had a detailed insight into all Armscor operations, including Project Adenia, involving movements of money within that bank. In addition to the examples, cited in Annexe 5 (which represent a tiny part of the 4000 financial transactions, which I had the occasion to study), it appears that 123 bank accounts have been set up and managed by KBL in the name of 40 different offshore companies, effectively controlled by Armscor (most of which had several accounts opened in their name). Each of these companies has been supplied by KBL and KT and were operated through KBL for Armscor's account, having tame (nominee) directors with no awareness whatsoever about the purchases made by Armscor, whose personnel were mandated to have total control of the accounts under powers of attorneys.
27. I am aware this statement may be produced in legal proceedings which BSL/BSI may bring against Armscor and/or KBL or other parties and that a false declaration on my part may expose me to criminal sanctions.

Signed in Geneva, this 30<sup>th</sup> of May 2007

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Philippe Mortgé



### **List of Annexes**

1. Copy of the ID card of Mr Philippe Mortgé;
2. Summary of the data analysed by Mr Philippe Mortgé;
3. Table 1 named "Supplier Table";
4. Table 2 named "Companies Table";
5. Tables and graphical representation.