MANTLE

COMMENTS ON THE BDO BINDER HAMLYN REPORT

1) INTRODUCTION

1.1 This note considers the plausibility of Nadir's defence to the present criminal charges in the light of the BDO reports and the purported extracts from the accounting records of Unipac and IBK annexed thereto.

1.2 It does not address the evidential quality of the records relied on by BDO. However, it should be noted that Nadir had effective control of both Unipac and IBK. It should also be noted that Fahri Tunalier does not allude in his affidavit to his having any involvement with IBK, although he appears to be a signatory to IBK's 1990 balance sheet in May 1991.

2) BACKGROUND

2.1 The charges relate mainly to payments in sterling made by Mantle ostensibly for the benefit of the Group (because they were charged to the account of a subsidiary) but which have been found to have been applied otherwise than for the Group's benefit (i.e. for the benefit of Nadir or related interests).

2.2 The essence of Nadir's defence is that, on each occasion that such payments (which he admits) were made, the Group had previously benefited from the injection by Nadir or his interests of at least equivalent sums of Turkish Lira into Unipac, in whose books appropriate accounting entries were made properly to reflect the subsequent sterling payments.

2.3 As to the mechanics of the accounting entries in Unipac's books, the relevant payments made by Mantle were credited to Unipac's account with Mantle (to balance the inter-company account) and debited either :

a) to Nadir's current account, which appears to have been maintained in credit partly by cash deposits (into Unipac's account with IBK, for Nadir) and partly by transfers from Mrs S Nadir's account with IBK (to Unipac's account with IBK, again for Nadir); or

b) to a specially designated "AN contra account" which for each transaction was funded by a specific quantity of Turkish Lira (equivalent to the round sum sterling payment) deposited in cash into Unipac's account with IBK.

2.4 The overall background to this course of dealing is, according to Fahri Tunalier's affidavit, that Unipac had "a substantial and constant requirement for the local currency" (i.e. Turkish Lira) and that Mantle, whose investment funds were held in sterling, had the opportunity to obtain a better rate of exchange than would otherwise have applied.

3) THE SCALE OF THE TRANSACTIONS

3.1 Nadir's solicitors have made it clear that the criminal charges brought to date relate to and can be explained by a much more extensive pattern of dealing, consisting essentially of the disbursement in London of sterling for Nadir interests against the prior deposit in Cyprus of Turkish Lira by Nadir interests.

3.2 The extent of these dealings is evidenced by the Unipac accounting records for the Nadir current account (disclosed for the period from January 1988 to October 1990) and the "AN Contra" account (disclosed for the period January 1988 to July 1990). These show the following sums passing through these accounts :

	Current Account	Contra Account	TOTAL
1988	TL 85 bn (£ 34.4m)	TL 100 bn (£ 39.3m)	TL 185 bn (£ 73.7m)
1989	TL 281 bn (£ 81.2m)	TL 195 bn (£ 54.9m)	TL 476 bn (£136.1m)
1990 (Part)	TL 288 bn (£ 63.8m)	TL 75 bn (£ 17.1m)	TL 363 bn (£ 80.9m)
	TL 654 bn (£179.4m)	TL 370 bn (£111.3m)	TL1024 bn (£290.7m)

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3.3 The BDO reports deal only with :

a) the criminal charges (in the report to Vizards); and

b) the specific transactions raised by the Administrators (in the report to Berwin).

The purported extracts from the accounting records of Unipac and IBK are fragmentary. However, having compared all the Mantle round sum cash transfers to Unipac which we have identified with the Unipac/IBK records as we have them, no inconsistency or discrepancy arises. A large number of such transfers (apart from those specifically dealt with by BDO) can be seen to give rise to the accounting entries in Unipac's books which would be expected if they were part of a similar arrangements.

3.4 If further similar charges are brought against Nadir he may have to support a similar defence with further extracts from the Unipac/IBK records. However, it is highly unlikely that such further records will reveal any inconsistency with those already provided.

3.5 The sums identified above as passing through the Nadir current and contra accounts are therefore consistent both with Berwin's explanation and our own investigations. On any view these sums are enormous. Questions clearly arise both as to the source of the Turkish Lira deposited with Unipac and as to the need which Unipac had for local currency in these quantities.

4) THE SOURCE OF THE TURKISH LIRA DEPOSITS

4.1 The records suggest that all the funding of the "AN contra" account (TL 370 bn, equivalent to £111.3m, in the period January 1988 to July 1990) was made in cash deposits of Turkish Lira (those which are the subject of specific charges being specifically asserted to have been made in cash, and the others not being differentiated in any way in the accounting records). In each case these appear to have been made in specific Turkish Lira amounts corresponding at the relevant exchange rate to the round sum sterling amounts charged against them.

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4.2 As to Nadir's current account, this appears to have been funded partly by direct cash deposits and partly by transfers from Mrs S Nadir's account. In the period November 1989 to July 1990 (the period for which we have the IBK records for Mrs Nadir's Turkish Lira account), Mrs Nadir appears to have deposited some TL 168 bn in cash and transferred some TL 167 bn to Unipac for the credit of Nadir's current account. Thus the source of all the credits to this account also appears to be Turkish Lira cash.

4.3 There is no obvious reason why odd sums of Lira (corresponding to round sums in sterling) should have been deposited in cash for the "AN contra" account. It would surely have been more sensible for the cash to have been paid into Mrs Nadir's account when available and whatever sum was required transferred when it was needed.

4.4 As to the size of the individual deposits of cash, these appear to have been as high as TL 17 bn. This would be not less than 340,000 banknotes. At least from a Western European perspective this represents an unimaginable quantity of cash.

4.5 Further statistical research needs to be undertaken, but all this suggests that an entirely improbable proportion of the Turkish note issue found its way to a small private bank serving a tiny section of the population.

4.6 The apparent size of IBK is absurdly at variance with the amounts of money said to be showing through it. THe "audited" (Erdal & Co) balance sheet of IBK at 31 December 1990 shows gross deposit liabilities of the TL 56 bn (£10.0m) compared with TL 28 bn (£7.5m) at 31 December 1989.

4.7 Unipac's records show it as having TL 319 bn (£68.8m) in its Turkish Lira current account with IBK at 30 June 1990. IBK also certified that on 8 October 1990 it held a blocked deposit from Unipac amounting to £47.4m.

5) UNIPAC'S REQUIREMENTS FOR TURKISH LIRA

5.1 On the scenario postulated by Nadir/Berwin's explanation, Unipac in effect swapped some £300m for some TL 1,000 bn over a three year period, while at the same time building up a pile of cash in hard currency (£54.8m equivalent at 31 December 1989).

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5.2 On its own trading account Unipac would appear to have had little requirement for Turkish Lira - given (a) that (on the records we have) around half of its sales were settled in local currency, (b) that a fair proportion of its raw materials would have to be paid for in hard currency, and (c) its high margins.

5.3 Unipac is also said to have acted as a banker to the Turkish subsidiaries, in particular, Vestel and Meyna, and it is possible that it could have on-lent local currency to these operations. We have insufficient information as to the currency structures of these operations to form a view as to their likely requirement for Turkish Lira over the period. However, it does not appear that Unipac lent material amounts to these subsidiaries in the year ended 31 December 1989.

5.4 The major application of funds by Unipac was in fixed asset expenditure. A rough analysis of Unipac's likely currency cash flows for the year ended 31 December 1989 (based on its accounts/accounts packages) suggests that it is only if the whole of its fixed asset expenditure (the equivalent of some £100m) had been expended in Turkish Lira that it could have absorbed the magnitude of local currency postulated.

6) **OTHER ASPECTS OF UNIPAC'S/IBK'S ACCOUNTING**

6.1 The Nadir current account is maintained in dual currency in Unipac's books, but appears to be denominated in Turkish Lira. Accordingly revaluation at each year end gives rise to a sterling exchange gain for Unipac of £1,228,743 in 1988, £813,806 in 1989, and £1,361,102 in 1990. In addition to the purchase of Impex (US$7.88m) and the newspaper interests (£16.5m) major charges to this account are in the form of round sum sterling debits effected by journal entries - e.g. 13 entries for 30 September 1989 totalling £25.5m, and 10 entries for 31 December 1989 totalling £11.85m. The transactions underlying these entries have not yet been identified. There is no evidence of interest being given (which is consistent with Tunalier's affidavit) although the balance from time to time is substantial.

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6.2 The "AN Contra" account, while maintained in dual currency, appears to be denominated in sterling. The Turkish Lira entries, which purport to show the benefit accruing to Unipac from trading currencies with Mrs Nadir rather than on the official exchange, appear to be for memorandum purposes only.

6.3 Unipac's cash book and ledger account for its Turkish Lira IBK account are consistent with IBK's records to the extent that they overlap.

6.4 Unipac's sterling deposit account 10035 with IBK is that used for the receipt of funds from London and Jersey. It is slightly anomalous that IBK's records for this account show all receipts as emanating from "Polly Peck International", whether they come directly from one of PPI's London banks, indirectly from one of PPI's London banks via Unipac's NatWest Jersey account, or straight from Unipac's NatWest Jersey account. In the last two cases there would ordinarily be no reason for the bank receiving the funds to identify the transfer as being anything other than from one Unipac account into another.

6.5 There are two other slight anomalies in respect of the book-keeping in this account :

a) the receipt of £1.2m on 26 April 1988 appears to have been credited to PPI, when it should have been credited to the NatWest Jersey account whence it came; and

b) the receipt of £2m on 8 September 1988 appears to have been credited to PPI. However, in PPI's books the payment was debited to Meyna rather than Unipac.

It is unlikely that either of these items is of any moment, since they could easily have been corrected by a journal which we have not seen.

6.6 Otherwise these seems to be nothing in the limited accounting records we have which can be said to be inconsistent with the alleged transactions having taken place.

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