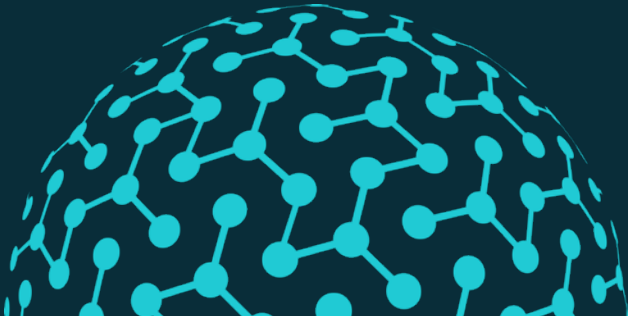


KHARON[®]

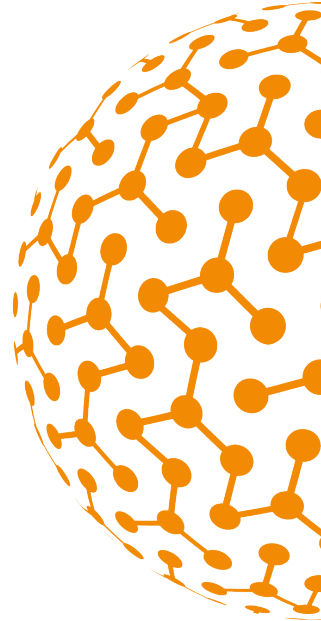
EXPLORING THE 50 PERCENT RULE

Joshua Shrager, Senior Vice President

December 2019

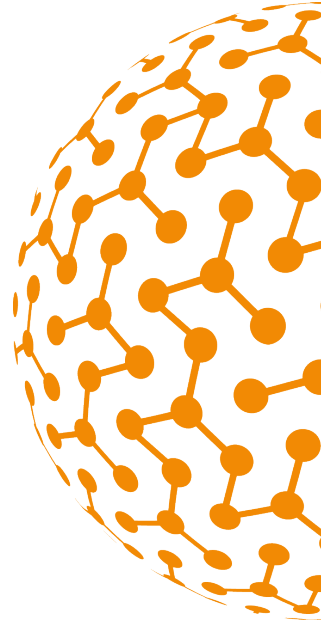


A QUICK HISTORY



50% Rule Introduced

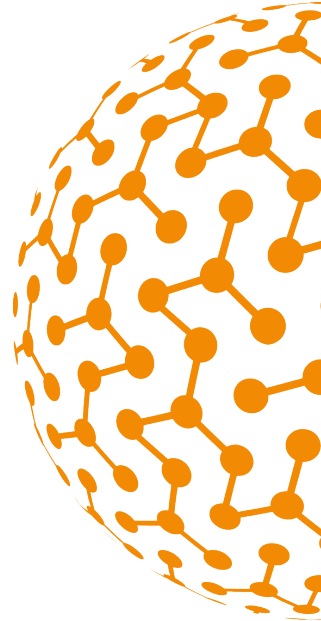
- ✓ February 2008: U.S. Treasury formalizes 50% rule
- ✓ 50% rule: blocks the property and interests of entities majority-owned by parties named on OFAC's SDN List



Treasury Expands the 50% Rule

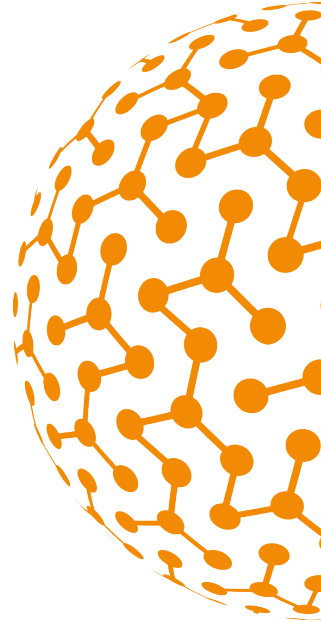
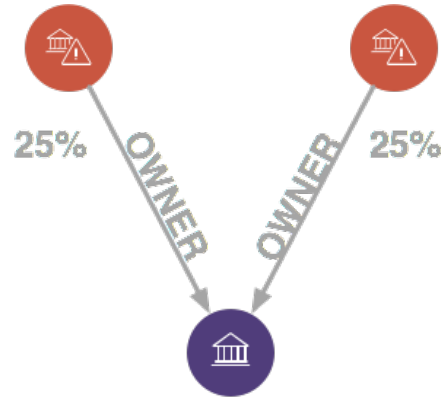
- ✓ August 2014: 50% rule extended to cover SSI program, aggregate ownership, ownership on behalf of SDNs

“any entity owned in the aggregate, directly or indirectly, 50 percent or more by one or more blocked persons is itself considered to be a blocked person”



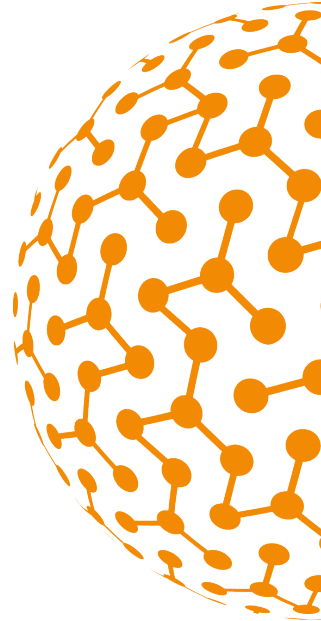
Treasury Expands the 50% Rule

Entities 50% or more owned in **aggregate** by sanctioned actors are considered blocked.



SSI Directives – Implications for Aggregate Ownership

- ✓ July 2014: Treasury introduces the Sectoral Sanctions Identifications (SSI) List
- ✓ Prohibits certain transactions with persons in Russia's financial, energy, and defense sectors
- ✓ October 2017: OFAC amends SSI related guidance



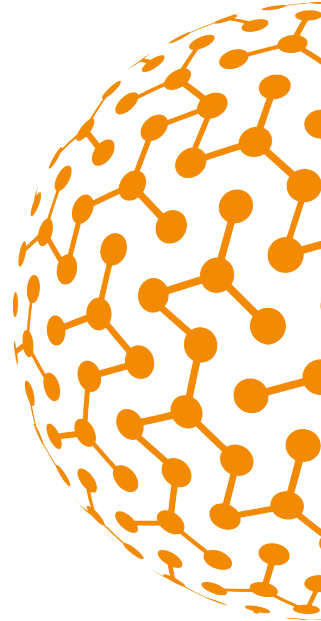
OFAC Urges Caution Beyond the 50% Rule

OFAC urges caution when considering a transaction with a non-blocked entity:

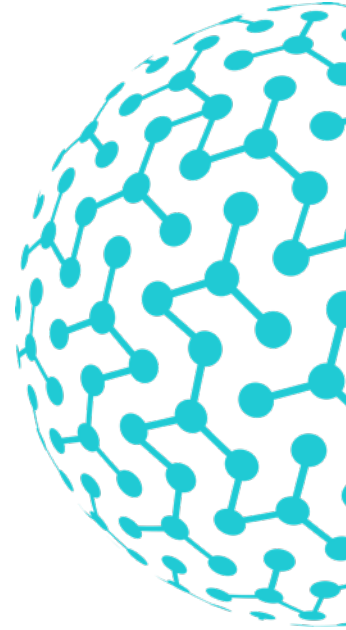
“in which one or more blocked persons have a significant ownership interest that is less than 50 percent or which one or more blocked persons may control by means other than a majority ownership interest.”

“Such non-blocked entities may become the subject of future designations or enforcement actions by OFAC.”

OFAC General Questions: 398



A LOOK AT THE NUMBERS



50% By The Numbers

4,500+ actors majority-owned by SDNs & SSIs

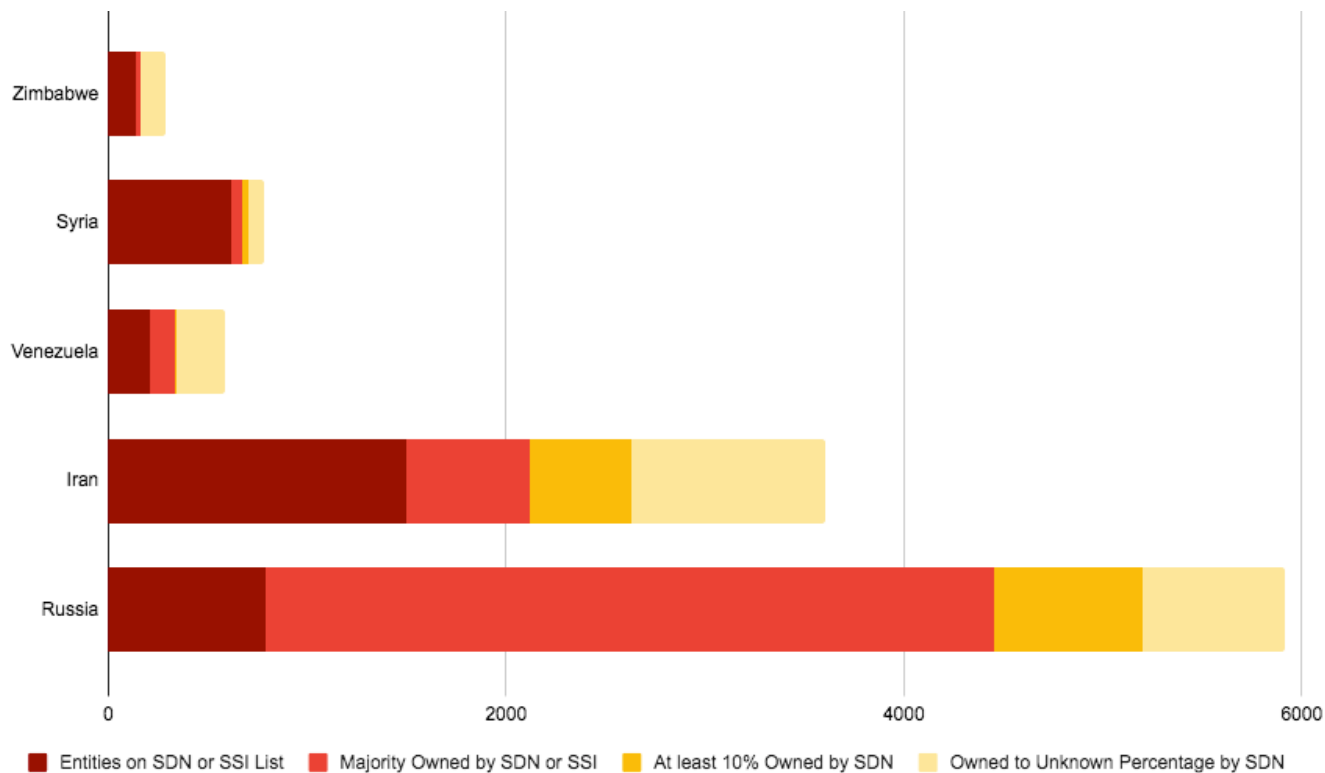
- ✓ 1,500+ SDN majority-owned subsidiaries
- ✓ 3,000+ SSI majority-owned subsidiaries

Across 100 different jurisdictions

- + 3,500+ Russia
- + 600+ Iran
- + 120+ Venezuela*

*not including 700+ state-owned enterprises

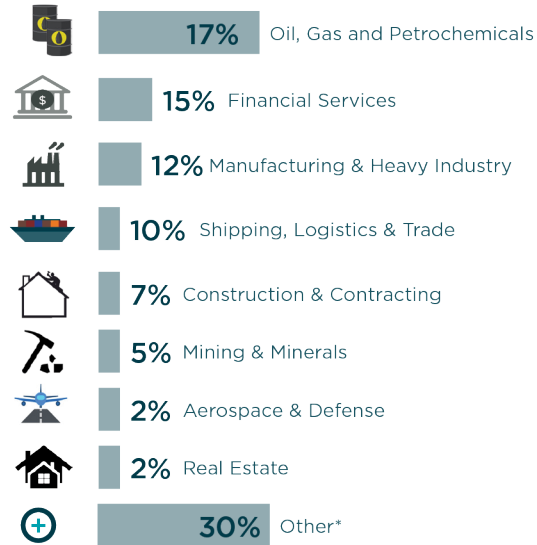
Many Subsidiaries Are Majority-Owned But Not Listed



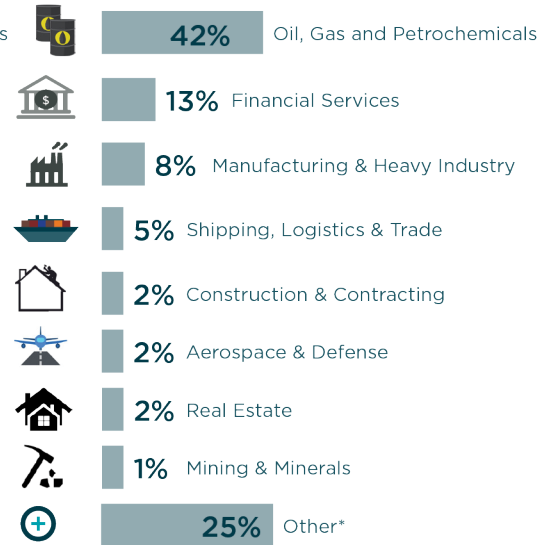
Impact Across Sectors

Entities subject to the 50 Percent Rule operate in every major industrial sector

SDN MAJORITY OWNED

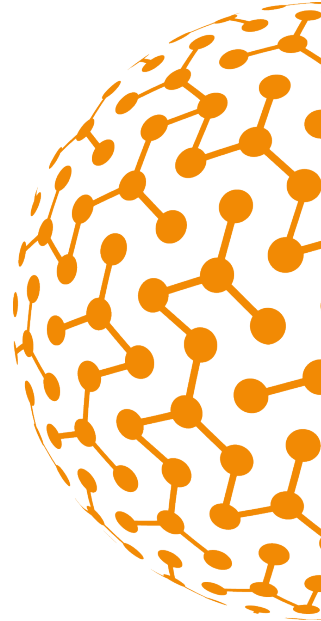


SSI MAJORITY OWNED



*Includes Agriculture, Entertainment, Real Estate, Professional Services, Telecom, and more

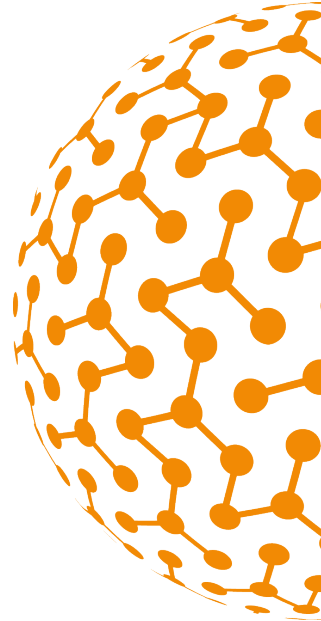
ENFORCEMENT & BROADER ENVIRONMENT



Enforcement Actions: The Cost and Complexity of Compliance Increases

February 2016:

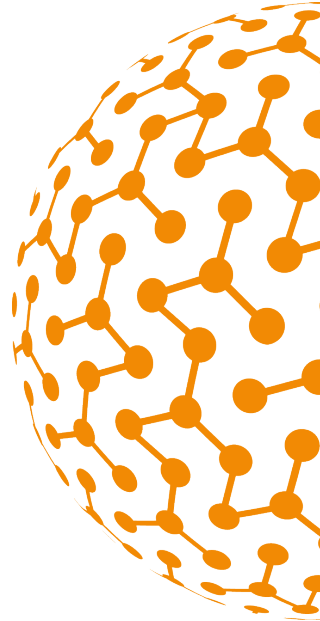
- ✔ Financial institution fined nearly \$2.5 million
- ✔ Processed transactions on behalf of entities 50% or more owned by sanctioned Industrial Development Corporation of Zimbabwe



Enforcement Actions: The Cost and Complexity of Compliance Increases

An “enforcement response may be particularly appropriate” if:

- A) Violator holds direct customer relationships for entities 50% or more owned by sanctioned actors
- A) Institution’s “own records clearly demonstrate” SDN ownership
- A) Publicly available information on SDN ownership

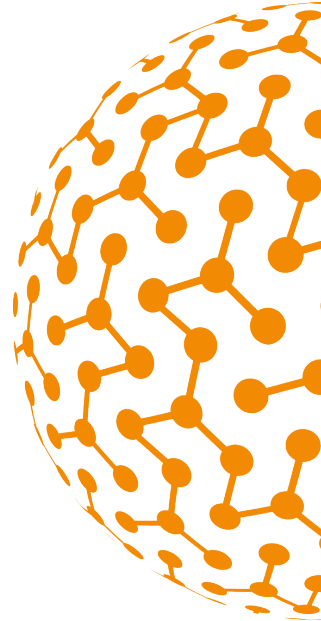


Enforcement Actions: The Cost and Complexity of Compliance Increases

November 2018:

- ✓ **U.S.-based aerospace & defense company fined**
- ✓ **Exported equipment to a majority-owned subsidiary of sanctioned Almaz-Antey Corp**

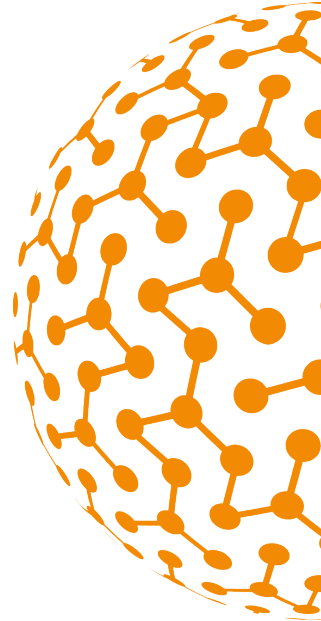
Exporting to “a subsidiary of a blocked person with *nearly the same name as the blocked person*” was an aggravating factor.



Enforcement Actions: The Cost and Complexity of Compliance Increases

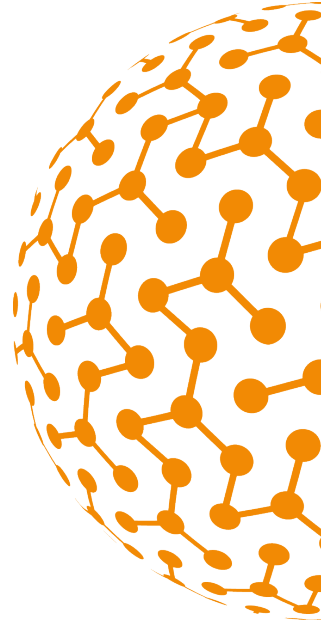
April 2019:

- ✔ **Financial institution fined**
- ✔ **Operated accounts on behalf of companies owned or otherwise affiliated with Islamic Republic of Iran Shipping Lines (IRISL)**



50% + Environment

- ✓ US & EU 50% Rule: Blocks the Property of Majority Owned Subsidiaries
- ✓ Reliance on Gray/Delta Lists
- ✓ Growing Investment in Managing 50%+ Risk
- ✓ Dynamic Ownership Structures Present Challenges



Publicly Available Information Goes Beyond Corporate Records

- ✔ Expectation to identify public ownership information
- ✔ Mine & synthesize a variety of sources
- ✔ Regular monitoring

The collage illustrates the variety of public information sources available for monitoring. It includes:

- A Russian company profile for "Мрия Резорт & Спа" showing details like location, services, and contact information.
- A "Реквизиты" (Company Details) page for "Реквизиты" (Rеквизиты) with financial and identification data.
- A Google Play store page for "AlphaneWS" with a 4.6 rating.
- A Turkish "FIRMA SİCİL BİLGİLERİ" (Company Registry Information) page for "İSTANBUL TİCARET ODASI BAĞLI BANKASI" with fields for Sıclı No, Ömer, Eski Ömer, İğ Adresі, Şube Adresі, Telefon No, Faks, Web Sayfası, Çalış Keyfі Tarіhі, Ana Sıkıştırı Tescil Tarіhі, Vergi No, Sermaye, Menek Grubu, Nace Kodu, and Firmam İy Konusu.

Thinking About Supply Chains

2,750+ entities with direct commercial ties to sanctioned actor

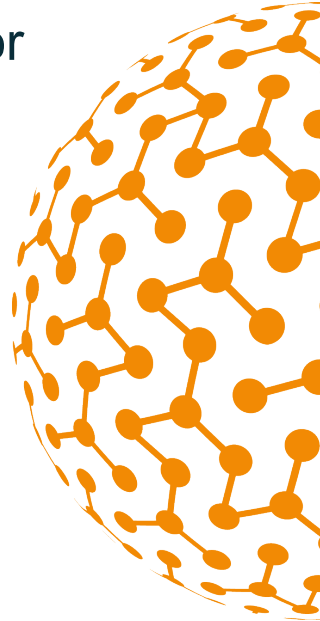
1,350+ entities with direct commercial tie to entity in embargoed jurisdiction

300+ entities with direct commercial tie to a sanctioned by law subsidiary

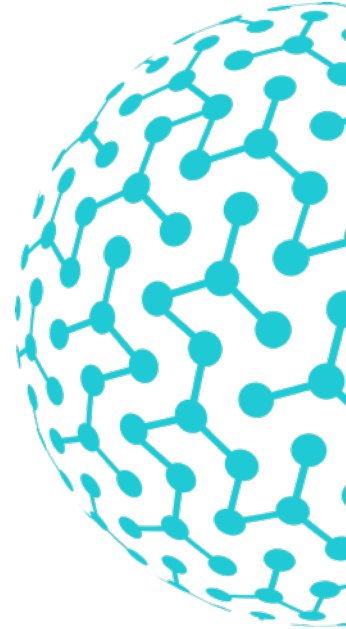
Other indicators:

2,200+ entities share identifiers with sanctioned firms

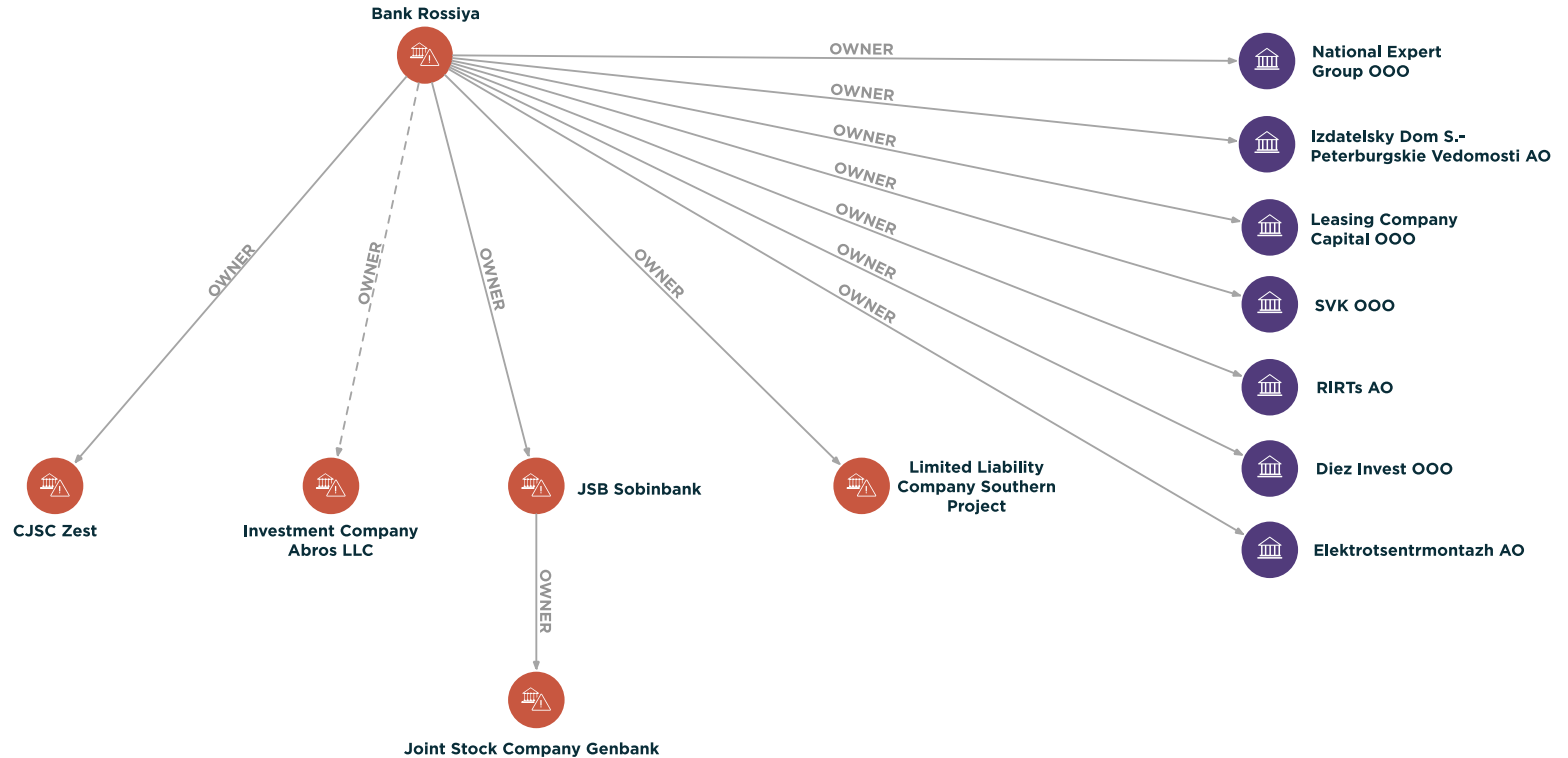
2,400+ entities led, owned, or controlled by the leaders of sanctioned firms



CASE STUDIES



CASE STUDY: Other Majority Owned Subsidiaries are NOT Listed



CASE STUDY: Application of the 50% Rule: Sanctioning of SSI Subsidiaries

July 2014: Treasury adds VTB Bank to the SSI List

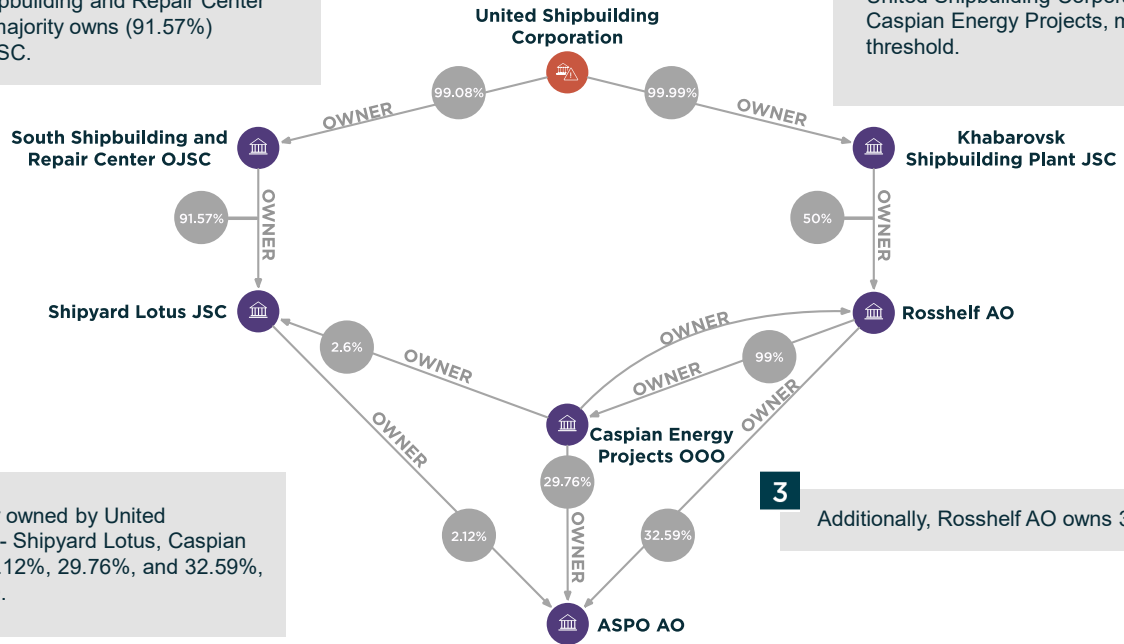


Treasury emphasized that the subsidiaries “were already subject to the same financing restrictions as their respective parent entities” pursuant to the August 2014 amended 50% rule guidance

Case Study: United Shipbuilding Corporation

1 United Shipbuilding Corporation majority owns 99.08% of South Shipbuilding and Repair Center OJSC. South Shipbuilding and Repair Center OJSC indirectly majority owns (91.57%) Shipyard Lotus JSC.

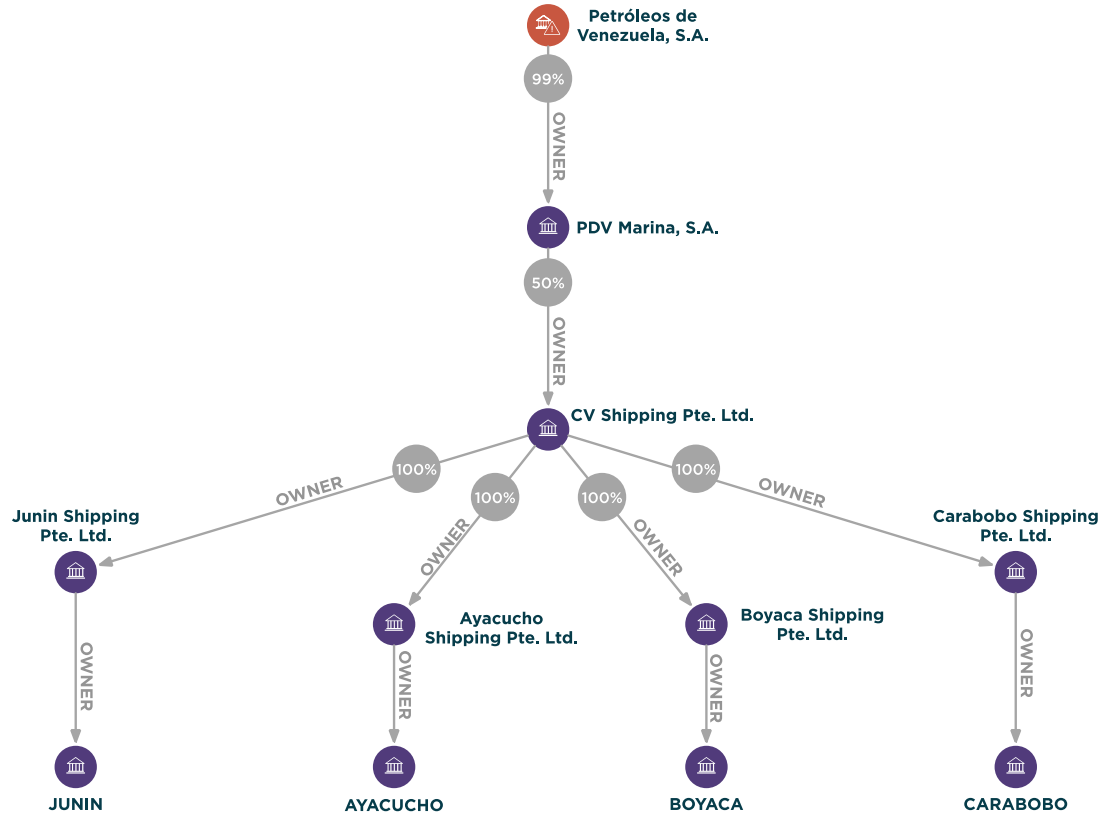
2 United Shipbuilding Corporation majority owns Khabarovsk Shipbuilding Plant JSC, which owns 50% of Rosshelf AO. Rosshelf AO is therefore also indirectly majority owned by United Shipbuilding Corporation. Rosshelf AO owns 99% of Caspian Energy Projects OOO, meeting the majority ownership threshold.



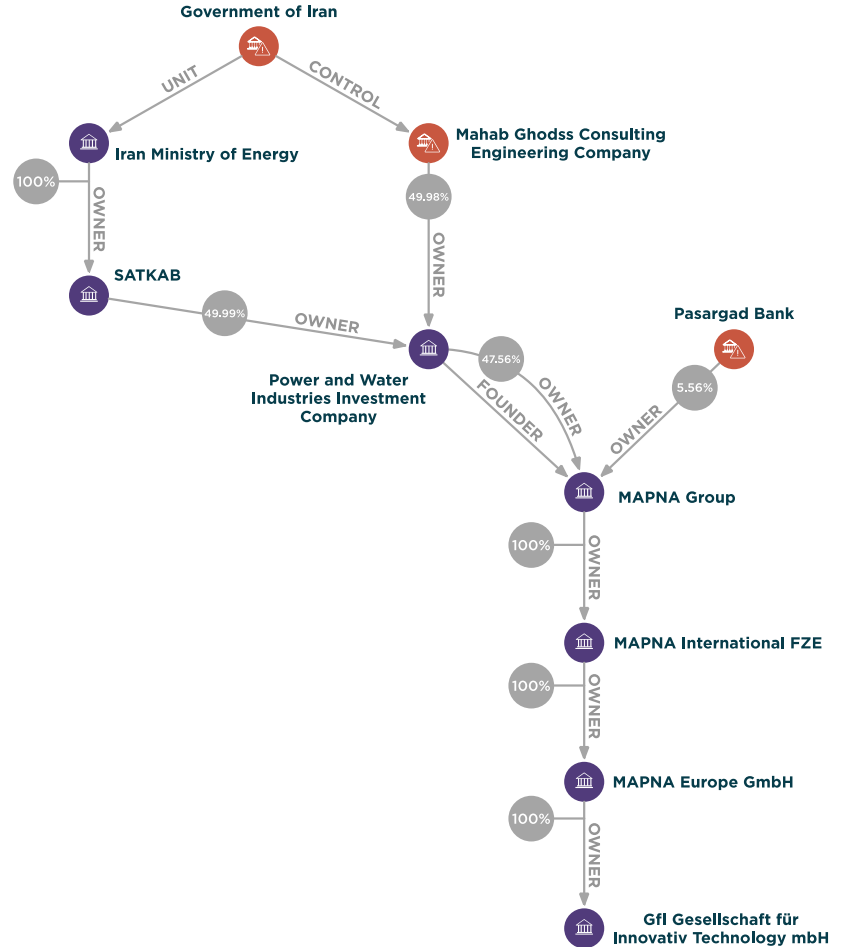
4 Entities indirectly majority owned by United Shipbuilding Corporation - Shipyard Lotus, Caspian Energy, Rosshelf - own 2.12%, 29.76%, and 32.59%, respectively, of ASPO AO.

3 Additionally, Rosshelf AO owns 32.59% of ASPO AO.

Case Study: PDVSA Holdings in Singapore



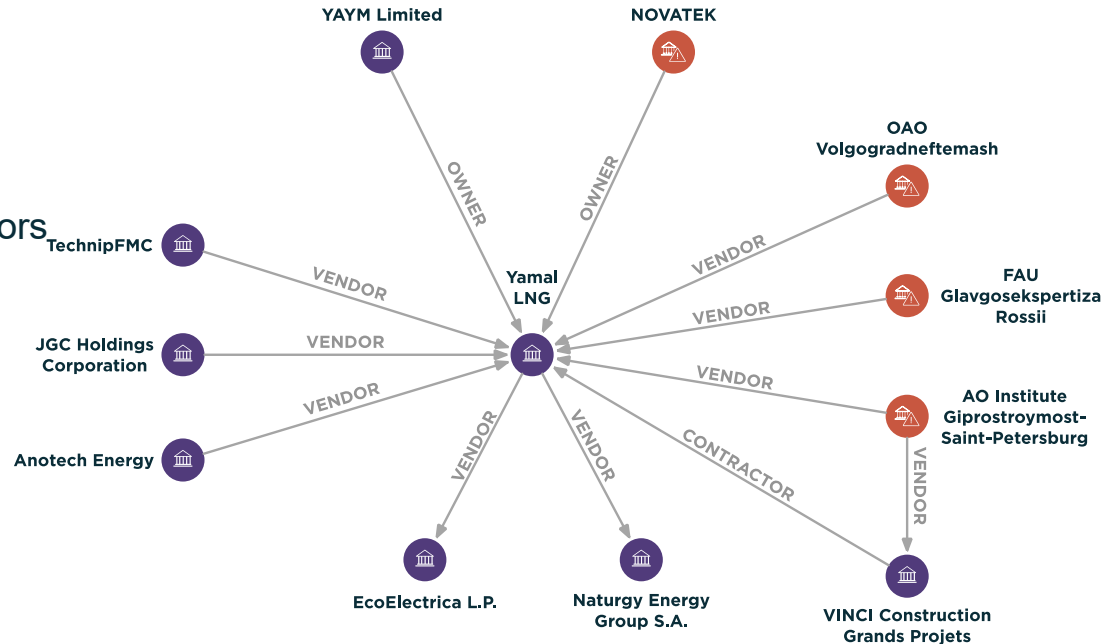
Case Study: Complex, Cross-Jurisdiction Ownership Structures



Case Study: Project Vendors & Contractors

Yamal LNG project in Russian Arctic Supplies Global Energy Markets

- + Majority Owned by SSI Novatek
- + SDN Project Suppliers and Contractors
- + Foreign Contractors on Project



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