From:

To: (b)(6), (b)(7)(C)Subject: RE: Kalashnikov Finds

Date: Thursday, July 13, 2017 10:37:00 AM

At the time of designation, it was estimated that U.S. markets accounted for nearly 70 percent of Kalashnikov's small-arms (b)(5)

exports (UPI Article), including the AK-47 and its variants.

(b)(5)

From: Dondarski, Michael

Sent: Thursday, July 13, 2017 10:11 AM

To: (b)(6), (b)(7)(C)

(b)(6), (b)(7)(C)

Subject: FW: Kalashnikov Finds Success Even After U.S. Sanctions

From: (b)(6), (b)(7)(C)

Sent: Thursday, July 13, 2017 8:52 AM

To: _DL_TFI_Ukraine_Russia < _DL_TFI_Ukraine_Russia@do.treas.gov>

Subject: Kalashnikov Finds Success Even After U.S. Sanctions

https://www.wsi.com/articles/kalashnikov-finds-success-even-after-u-s-sanctions-1499943603

Updated July 13, 2017 7:51 a m. ET 10 COMMENTS

IZHEVSK, Russia-Russian arms manufacturer Kalashnikov Concern once had America in its sights: The iconic rifle designer aimed to open a U.S. production facility to meet demand in the world's largest civilian gun market.

Sanctions imposed by the U.S. against the company in 2014 ended those plans. But after a quick pivot, sales are booming as the company looks to governments in Asia, Africa and elsewhere that want to upgrade their militaries' equipment at an affordable price and seal closer ties with the Kremlin.

"The sanctions turned a civilian-focused company into a military one," said Alexey Krivoruchko, chief executive of Kalashnikov Concern.

Revenues at Kalashnikov more than doubled last year to the equivalent of \$300 million and are forecast to increase a further twofold this year.

Kalashnikov no longer produces its renowned AK-47—the rugged assault rifle that became the symbol of the global reach of the Soviet Union's arms industry-but executives and analysts say its latest assault rifles retain the same selling points: simplicity and reliability even in the most unforgiving environments, and at a cheaper price than competitors. The company, which also offers a variety of hunting and sporting weapons, is expanding: it recently acquired a drone manufacturer and a shipbuilder.

This document is made available through the declassification efforts and research of John Greenewald, Jr., creator of:

The Black Vault



The Black Vault is the largest online Freedom of Information Act (FOIA) document clearinghouse in the world. The research efforts here are responsible for the declassification of hundreds of thousands of pages released by the U.S. Government & Military.

Discover the Truth at: http://www.theblackvault.com



Russian sculptor Salavat Scherbakov, right, assembled pieces of the clay model of the monument to Mikhail Kalashnikov, credited with creating the AK-47. PHOTO: SERGEI ILNITSKY/EUROPEAN PRESSPHOTO AGENCY

The company's turnaround represents a rare bright spot in Russia's stagnant economy, which remains dominated by the state a quarter-century after the fall of the Soviet Union. Over a decade and a half in power, Russian President Vladimir Putin has promoted a brand of state-led capitalism that has strengthened the Kremlin's sway over key sectors of the economy.

In a first for Russia's tightly controlled arms industry, Kalashnikov was revived by a partnership of state and private investors that invested around 12 billion rubles over the last three years.

Five years ago, the factory in Izhevsk was all but shot. Creditors were circling; orders had dried up; workers toiled on Soviet-era machines under a leaking roof.

The investors installed new managers who overhauled equipment and working practices, increasing staff to 7,000 from 4,000 and are hiring hundreds more to keep production going around the clock to meet demand.

"Processes had degraded: There was old technology, old equipment, and poor results," said Dmitry Tarasov, managing director of Kalashnikov Concern. "New machines, new processes appeared; structures were simplified; we digitized, we cut down on paper bureaucracy."



Alexey Krivoruchko, CEO of Kalashnikov, says sanctions changed the company's focus. PHOTO:STRINGER/REUTERS

The owners of Kalashnikov—Mr. Krivoruchko and two other businessmen, along with state-holding company Rostec—say their partnership gives the company the best of both worlds: private investment and management focused on efficiency and profit combined with the stability of a state interest in a strategic industry.

"It's surprising that they succeeded in turning the company around, given the situation it was in," said Ruslan Pukhov of Moscow-based defense think tank CAST.

The new investors at Kalashnikov also have benefited from ties to the Kremlin, analysts say.

Sergei Chemezov, the Rostec chief, has known Mr. Putin since he worked for the KGB in Dresden, Germany. Andrei Bokarev, one of Mr. Krivoruchko's partners, is a personal acquaintance of Defense Minister Sergei Shoigu, according to analysts. Mr. Putin in April called Mr. Bokarev a "diligent Russian entrepreneur."

Those benefits have come in the form of access to loans and acquisitions that have helped Kalashnikov move into drone production though the purchase of Zala, a Izhevsk-based maker of small unmanned aerial vehicles, analysts said. Mr. Putin has visited the plant twice in the last year and praised the turnaround, saying it was on a "completely new level." He presented Egyptian President Abdel Fattah Al Sisi with a Kalashnikov rifle in 2015.

The town of Izhevsk, which lies 600 miles east of Moscow, has been at the heart of the country's weapons industry since it started manufacturing arms for the war against Napoleon at the start of the 19th century. In the Soviet era, it pumped out millions of AK-47s, which became a symbol of revolutionary and insurgent movements around the globe.

The AK-47 also became emblematic of the deadly proliferation of small arms. After the Cold War, cheap Kalashnikov variants from Communist bloc countries flooded Third World markets. The easy-to-operate rifle became as popular in the hands of ragtag militias and child soldiers as among regular armies.

The breakup of the U.S.S.R. in 1991 also hit the Kalashnikov company hard, as state orders and investment halted. By the start of the 2010s, the company appeared headed toward insolvency; four CEOs had come and gone in as many years.

Rostec set about restructuring the business in 2011. A 49% stake in the heavily indebted company was sold to Mr. Krivoruchko and his partner in 2014 for 1.3 billion rubles, or \$36 million, along with a pledge to invest millions more to turn the company around.

Mr. Krivoruchko, 41 years old, became chief executive and hired a new team of managers to oversee the overhaul of equipment and management.



Inside Kalashn kov's factory in Izhevsk, Russia. PHOTO: SERGEY MAMONTOV/ASSOCIATED PRESS

They upgraded the factory, buying new machinery and cutting the length of the assembly line to increase efficiency. Thirty Soviet-era machines used to cut weapons parts were replaced by one laser cutting machine. Internal communications are now all digital: For example, problems with equipment are reported via computer terminals and smartphones rather than paper memos.

"In many companies, it was done decades ago," said Mr. Krivoruchko. "It's a basic thing."

But within months, the company's strategy was upended, when the U.S. Treasury Department sanctioned Kalashnkov in response to Russia's military interventions in Ukraine.

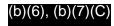
Kalashnikov shifted quickly, abandoning plans to open a production facility in the U.S., its main export market, and accelerating efforts to attract new clients in Asia, where governments are looking to arm their militaries with new equipment at prices lower than many Western competitors.

Mr. Krivoruchko is tight-lipped about client states, but analysts say Kalashnikov is looking at the possibility of establishing a production plant in India and the company is pushing its AK-103 for a tender in Pakistan.

Simplicity of design is a selling point for some militaries. But Russian arms analyst Mikhail Degtyarev said Kalashnikov remains a solid second-tier firm in the high-tech world of arms manufacturing.

"The technology works, but it's not cutting edge," he said, adding the company it competes in Southeast Asia and Africa with companies such as Poland's Fabryka Broni Lucznik-Radom, Belgium's FN Herstal and Germany's Heckler & Koch GmbH, all of which have offerings at a similar price and level of technology.

Write to James Marson at james marson@wsj.com and Thomas Grove at thomas.grove@wsj.com



Deputy Director, Office of Illicit Finance

Department of the Treasury (b)(6), (b)(7)(C)

Bates No. 2018-08-116: 009699 Pending Consultation with Other Government Agency

From:

Subject: RE: Kalashnikov Finds Success Even After U S. Sanctions

Date: Thursday, July 13, 2017 9:01:07 AM

From: (b)(6), (b)(7)(C)

Sent: Thursday, July 13, 2017 9:00 AM

(b)(6), (b)(7)(C)

Subject: RE: Kalashnikov Finds Success Even After U.S. Sanctions

I read this earlier. Neat article.

(b)(5)

From: (b)(6), (b)(7)(C)

Sent: Thursday, July 13, 2017 8:59 AM

(b)(6), (b)(7)(C)

Subject: FW: Kalashnikov Finds Success Even After U.S. Sanctions

From: (b)(6), (b)(7)(C)

Sent: Thursday, July 13, 2017 8:54 AM

(b)(6), (b)(7)(C)

Subject: FW: Kalashnikov Finds Success Even After U.S. Sanctions

(b)(6), (b)(7)(C)

Enforcement Section Chief Office of Foreign Assets Control U.S. Department of the Treasury 1500 Pennsylvania Avenue, N.W. Washington, D.C. 20220

(b)(6), (b)(7)(C

From: (b)(6), (b)(7)(C)

Sent: Thursday, July 13, 2017 8:52 AM

To: _DL_TFI_Ukraine_Russia < _DL_TFI_Ukraine_Russia@do.treas.gov>

Subject: Kalashnikov Finds Success Even After U.S. Sanctions

https://www.wsi.com/articles/kalashnikov-finds-success-even-after-u-s-sanctions-1499943603

Updated July 13, 2017 7:51 a m. ET **10 COMMENTS**

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Sanctions imposed by the U.S. against the company in 2014 ended those plans. But after a quick pivot, sales are booming as the company looks to governments in Asia, Africa and elsewhere that want to upgrade their militaries' equipment at an affordable price and seal closer ties with the Kremlin.

2018-08-116: 009700

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Russian sculptor Salavat Scherbakov, right, assembled pieces of the clay model of the monument to Mikhail Kalashnikov, credited with creating the AK-47. PHOTO: SERGEI ILNITSKY/EUROPEAN PRESSPHOTO AGENCY

The company's turnaround represents a rare bright spot in Russia's stagnant economy, which remains dominated by the state a quarter-century after the fall of the Soviet Union. Over a decade and a half in power, Russian President Vladimir Putin has promoted a brand of state-led capitalism that has strengthened the Kremlin's sway over key sectors of the economy.

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Inside Kalashn kov's factory in Izhevsk, Russia. PHOTO: SERGEY MAMONTOV/ASSOCIATED PRESS

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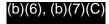
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Write to James Marson at james marson@wsj.com and Thomas Grove at thomas.grove@wsj.com



Deputy Director, Office of Illicit Finance

Department of the Treasury (b)(6), (b)(7)(C)

From: (b)(6), (b)(7)(0

To: (b)(6), (b)(7)(C)

Subject:Hotline SearchResults.xlsbDate:Monday, June 26, 2017 12:37:09 PM

Attachments: SearchResults.xlsb

FYSA, hotline coverage back to January 2015.

2018-08-116: 009705

See attached spreadsheet Bates 9706_SearchResults_redacted

Bates Nos. 2018-08-116: 009707 - 009708 Pending Consultation with Other Government Agency

Bates Nos. 2018-08-116: 009709 - 009717 Submitter Notice Process Initiated

Bates Nos. 2018-08-116: 009718 - 009732 Pending Consultation with Other Government Agency

Bates Nos. 2018-08-116: 009733 - 009735 Pending Consultation with Another Component of Treasury

Bates Nos. 2018-08-116: 009736 - 009737 Submitter Notice Process Initiated

(b)(6), (b)(7)(C) From: To: Subject: RE: Kalshnikov - Florida Date: Wednesday, February 17, 2016 7:33:00 AM I am looking into it. From: (b)(6), (b)(7)(C)**Sent:** Tuesday, February 16, 2016 4:47 PM **To:** (b)(6), (b)(7)(C) Subject: FW: Kalshnikov - Florida Can you please take a look at this article? From: (b)(6), (b)(7)(C)Sent: Tuesday, February 16, 2016 4:47 PM
To:(b)(6), (b)(7)(C)Gatianis, Gregory: Baheri, Leila
(b)(6), (b)(7)(C) (b)(6), (b)(7)(C) Subject: RE: Kalshnikov - Florida to take a look. Thank you. I'll send to From: (b)(6), (b)(7)(C) **Sent:** Tuesday, February 16, 2016 4<u>:32 PM</u> To: Gatianis, Gregory: Baheri, Leila; (b)(6), (b)(7)(C)
Ce:(b)(6), (b)(7)(C) (b)(6), (b)(7)(C)Subject: RE: Kalshnikov - Florida (b)(5)Adding From: Gatjanis, Gregory Sent: Tuesday, February 16, 2016 4:28 PM (b)(6), (b)(7)(C) To: Baheri, Leila (b)(6), (b)(7)(C) Subject: RE: Kalshnikov - Florida (b)(5)From: Baheri, Leila Sent: Tuesday, February 16, 2016 4:23 PM To: Gatianis, Gregory: (b)(6), (b)(7)(C) (b)(6), (b)(7)(C)Subject: Kalshnikov - Florida

http://money.cnn.com/2016/01/27/news/companies/kalashnikov-florida-factory/index.html? iid=ob_article_footer&iid=obnetwork

(b)(5)

Bates No. 2018-08-116: 009739 Duplicative of Content in Bates No. 2018-08-116: 009738

Bates Nos. 2018-08-116: 009740 - 009742 Pending Consultation with Another Component of Treasury

(b)(6), (b)(7)(C)

(b)(6), (b)(7)(C)From:

Sent: Tuesday, November 24, 2015 11:57 AM

(b)(6), (b)(7)(C)To: Subject: RE: Kalashnikov

I cleared it with edits, 44516

From: (b)(6), (b)(7)(C)

Sent: Tuesday, November 24, 2015 11:47 AM **To:**(b)(6), (b)(7)(C)

Subject: FW: Kalashnikov

Hey

Just some info about Kalashnikov from policy and counsel

(b)(6), (b)(7)(C)

Enforcement Officer Office of Foreign Assets Control United States Department of the Treasury 1500 Pennsylvania Avenue, NW Washington DC 20220

Tel. (b)(6), (b)(7)(C)

From: (b)(6), (b)(7)(C)

Sent: Monday, November 23, 2015 10:07 AM To: (b)(6), (b)(7)(C) Cc: (b)(6), (b)(7)(C)

Subject: RE: At my desk now

This was a huge help. Thanks guys!

(b)(6), (b)(7)(C)

Enforcement Officer Office of Foreign Assets Control United States Department of the Treasury

1500 Pennsylvania Avenue, NW

Washington DC 20220 Tel. (b)(6), (b)(7)(C)

From: (b)(6), (b)(7)(C)

Sent: Monday, November 23, 2015 10:03 AM

(b)(6), (b)(7)(C)

Subject: RE: At my desk now

PRIVILEGED

Bates Nos. 2018-08-116: 009744 - 009745

Duplicative of Content in Bates Nos. 2018-08-116: 002420 - 002421

(b)(6), (b)(7)(C)

From: (b)(6), (b)(7)(C)

Sent: Monday, November 23, 2015 10:32 AM

To: (b)(6), (b)(7)(C)

Cc: (b)(6), (b)(7)(C)

Subject: Kalashnikov



You guys are up next on the rotation so I'm just passing on some info about imports of Kalashnikov related goods. I've had two of these cases this month. I had reached out to policy and they provided me with some info available on the FAQs. However, the transactions I've seen this month are slightly different than what is outlined on the FAQs. I had a follow-up question and counsel chimed in to clarify. I didn't realize this was the policy.



(b)(6), (b)(7)(C)

Enforcement Officer
Office of Foreign Assets Control
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington DC 20220
Tel. (b)(6), (b)(7)(C)

From: (b)(6), (b)(7)(C)

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Office of Foreign Assets Control
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington DC 20220
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Duplicative of content in Bates No. 2018-08-116: 002420

1

Bates Nos. 2018-08-116: 009747 - 009748

Duplicative of Content in Bates Nos. 2018-08-116: 002420 - 002421

Bates Nos. 2018-08-116: 009749 - 009750

Duplicate Bates Nos. 2018-08-116: 001558 - 001559

Bates Nos. 2018-08-116: 009751 - 009773 Pending Consultation with Other Government Agencies

Bates Nos. 2018-08-116: 009774 - 009778
Withheld in Full Pursuant to (b)(7)(A)

Bates Nos. 2018-08-116: 009779 - 009784
Pending Consultation with Other Government Agency

Bates Nos. 2018-08-116: 009785 - 009788 Submitter Notice Process Initiated



DEPARTMENT OF THE TREASURY WASHINGTON, D.C. 20220

NOTIFICATION OF BLOCKING OF THIRD PERSON

ENF 42112

Eldad Oz President RWC Group, LLC 911 William Leigh Drive Tullytown, PA 19007

JUL 16 2014

Dear Mr. Oz:

The U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") would like to inform you that on July 16, 2014, OFAC designated Concern Kalashnikov, formerly known as IZHMASH (the "Designated Party"), pursuant to Executive Order 13661 of March 16, 2014, "Blocking Property of Additional Persons Contributing to the Situation in Ukraine" ("E.O. 13661"), which was issued under the authority of the International Emergency Economic Powers Act, 50 U.S.C. §§ 1701-1706 ("IEEPA"). E.O. 13661 is implemented pursuant to the Ukraine-Related Sanctions Regulations, 31 C.F.R. part 589 and the Reporting, Procedures and Penalties Regulations, 31 C.F.R. part 501 (collectively, the "Regulations").

Please find enclosed a copy of a press release announcing OFAC's action against the Designated Party on July 16, 2014.

Pursuant to the Regulations and E.O. 13661, all property and interests in property of the Designated Party that are or come within the United States or within the possession or control of any U.S. person¹ are, with limited exceptions, blocked. Blocked property may not be transferred, paid, exported, withdrawn, or otherwise dealt in unless authorized by OFAC. In addition, unless authorized by OFAC, any transaction or dealing by a U.S. person, or within the United States, in any property or property interests of the Designated Party, is prohibited.

Please be advised that further performance under any contracts or written agreements, or in connection with any transactions under way, between RWC Group, LLC, and the Designated Party, including as a representative or agent thereof, is prohibited by the Regulations and E.O. 13661, unless the transaction is authorized by OFAC or exempt under IEEPA. Similarly, importing any goods in which the Designated Party has an interest or engaging in any financial or commercial transaction with the Designated Party is prohibited. Additionally, any transaction or dealing that evades or avoids these prohibitions is unlawful. It is also unlawful for any person to conspire to violate these prohibitions.

¹ A "United States person" means any United States citizen, permanent resident alien, entity organized under the laws of the United States or any jurisdiction within the United States (including foreign branches), or any person in the United States. See § 589.312 of the Regulations.

OFAC will consider requests for specific licenses to authorize certain transactions or dealings prohibited as a result of this action. Requests for specific licenses can be made via our Web site at http://www.treasury.gov/resource-center/sanctions/Pages/licensing.aspx, by facsimile at (202) 622-1657, or in writing at the following address:

Assistant Director for Licensing Office of Foreign Assets Control U.S. Department of the Treasury 1500 Pennsylvania Avenue, NW Washington, DC 20220

Please refer to the licensing procedures set forth in 31 C.F.R. §§ 501.801-802 for further guidance on submitting license requests. Should you have any inquiries regarding license requests, please contact Andrea Gacki, Assistant Director for Licensing, at (202) 622-2480.

Violations of IEEPA may result in civil monetary penalties of up to the greater of \$250,000 or twice the value of each underlying transaction. IEEPA also provides for criminal penalties of up to 20 years in prison and \$1 million in fines.

To assist the public in complying with the economic sanctions programs it administers, OFAC makes available a complete list of all specially designated and blocked persons against whom sanctions actions have been taken, at: www.treasury.gov/ofac.

Any questions concerning this notice may be directed to the Office of Enforcement, referencing ENF 42112, at (202) 622-2430.

Sincerely,

Barbara C. Hammerle

Balance Hounds

Deputy Director

Office of Foreign Assets Control

Enclosure

Bates Nos. 2018-08-116: 009791 - 009793 Submitter Notice Process Initiated

From: To:

Subject:

Date: Friday, January 30, 2015 2:25:46 PM

Here you go.

http://blog.cheaperthandirt.com/elena-kalashnikov-bewildered-american-made-aks/

FW: Top line blocking number?

(b)(6)From:

(b)(6)To: "Manfull, Alexandre"

Mon, 09 Mar 2015 16:25:31 -0400 Date: Attachments: 150309_Ukraine.xls (942.08 kB)

Hi (b)(6)

I ran into (b)(6) in the hallway a few minutes ago. He confirmed that the request referred to Ukraine-related blocked assets to date. Please see my attached output. I suspect (b)(5) I ran into (b)(5)

As of March 9, 2015, the total amount of blocked assets reported to OFAC pursuant to EO 13660 or EO 13661 is approximately (b)(4) remains blocked.

Also, the WSL article quoted the amount of the assets at "about \$640 million." Please let me know how you would like to proceed as (b)(6) heeds the numbers by COB today ideally. (b)(5) (b)(5)

(b)(6)

(b)(6)From:

Sent: Monday, March 09,

2015 2:51 PM (b)(6) To: Manfull, Alexandre Cc: (b)(6)

Fisch, Eytan;

Subject: Top line blocking number?

Hey, can you two send me the top line blocking number? John and Adam have requested it for the public fact sheet. They just want the generic number without any detail. Don't think that (b)(5)

Bates Nos. 2018-08-116: 009816 Submitter Notice Process Initiated