

June 2008

Project Coronet

Karel Schwarzenberg

KROLL

Private & Confidential

RESTRICTED USE WARNING

This report was prepared by Kroll Associates UK Limited at the request of the client to whom it is furnished. The client agrees that reports and information received from Kroll Associates are strictly confidential and are intended solely for the private and exclusive use of the client. Any other use and any communication, publication or reproduction of the report or any portion of its contents without the written consent of Kroll Associates UK Limited is strictly forbidden. The client agrees to indemnify and hold harmless Kroll Associates UK Limited against any damages or claims resulting from such unauthorised use.

CONTENTS

1 **INTRODUCTION** 1

2 **METHODOLOGY**..... 3

3 **FAMILY BACKGROUND AND BIOGRAPHY** 4

4 **EMPLOYMENT HISTORY** 5

 4.1 Zbrojovka Vsetin5

 4.2 Nova Spolocnost and Zeveta Bojkovice6

 4.3 Ruchstav group7

 4.4 Business Plans With Jan Machu9

 4.5 Appointment as Mayor9

 4.5.1 Vsetinske Byty 10

5 **COULD H&B REAL HAVE GAINED AN ADVANTAGE SUCH AS TO PROVIDE A MOTIVE TO REWARD MR. CUNEK?**..... 11

 5.1 Zbrojovka Bankruptcy 11

 5.2 COOP Therm Attempts to Buy Zbrojovka Apartments 12

 5.3 Vsetin Selects H&B Real For Vsetinske Byty 14

 5.4 Sale of the city’s stake in Vsetinske Byty to H&B Real 15

6 **CAN MR. CUNEK PROVIDE CONVINCING EXPLANATIONS AS TO THE LEGITIMATE SOURCES OF HIS FAMILY’S WEALTH?** 18

 6.1 Mr. Cunek’s declared financial assets 18

 6.2 Mr. Cunek’s other financial assets..... 18

 6.3 Mr. Cunek’s borrowings 19

 6.4 Dentist surgery 20

 6.5 Property 20

7 **COHERENCE OF THE ALLEGATION THAT A BRIBE TOOK PLACE ON 11 FEBRUARY 2002**..... 22

 7.1 Marcela Urbanova’s claims 22

 7.2 Layout of the executive floor of Vsetin city hall 22

 7.3 Mr. Cunek’s relationship with Petr Hurta and Martina Hurtova..... 22

 7.4 Evidence presented to the police to support Ms. Urbanova’s account..... 23

 7.5 Evidence which does not support Ms. Urbanova’s account 23

 7.6 Mr. Cunek’s movements on 11 February..... 24

 7.6.1 Witness – Miroslav Rozhon 24

 7.6.2 Witness – Milan Pucek..... 25

 7.6.3 Witness - Jaromir Kudlik 25

 7.6.4 Witness – Vit Zgarba..... 26

 7.6.5 Witness – Vojtech Jurcik..... 26

8 **SUMMARY** 27

 8.1 Could H&B Real have gained an advantage such as to provide a motive to reward Mr. Cunek? 27

 8.2 Can Mr. Cunek provide convincing explanations as to the legitimate sources of his family’s wealth?..... 28

8.3 How coherent is the evidence that a bribe took place on 11 February 2002?.....28

INTRODUCTION

The mandate for this investigation comes from the signed agreement between Foreign Minister Karel Schwarzenberg, Deputy Prime Minister Jiri Cunek and Prime Minister Mirek Topolánek (“the agreement”). The agreement called for an independent audit of Mr. Cunek’s finances and their origins.

The agreement aspired for an independent body to examine alternative explanations of the key events in this controversy. This is a preliminary report that addresses those issues and that has come to some conclusions but which acknowledges there is further verification work that could be done. Given that this inquiry was privately funded by Mr. Schwarzenberg and needed to be completed by the beginning of July and we agreed our mandate on 12 May, we have limited our activities to the most directly relevant issues with a much broader possible scope. A number of issues remain outstanding and could provide a basis for further work.

Also, there are other criminal cases that have arisen as a result of these allegations which have not formed part of this investigation’s remit. Those criminal cases may have significant consequences for Mr. Cunek that are not anticipated or reviewed here.

The circumstances of the agreement are that Mr. Cunek was accused of receiving a bribe of approximately CZK 500,000 shortly after he was elected to the Czech Senate in the Autumn of 2006. The bribe had allegedly taken place in February 2002 when Mr Cunek was Mayor of Vsetin, and was allegedly paid on behalf of H&B Real, a developer that had just concluded a joint venture with the city. The police conducted a six month investigation but Mr. Cunek was never prosecuted. In mid 2007 the Attorney General transferred the case to a new prosecutor who ruled there was no case to answer.

The case has been highly politicised from the beginning. The transfer to a new prosecutor and his subsequent decision to drop the matter drew sharp criticism from some Czech politicians and the media, and confidence in the decisions was eroded. The timing of the allegations against Mr. Cunek and the character of the person who made them, his former secretary Marcela Urbanova, have also been the subject of widely differing interpretations. Ms. Urbanova had previously accused Mr. Cunek of sexual harassment, a claim which has not, to date, led to prosecution in the Czech Republic.

There are two key events, established as fact by the police investigation, that lie at the heart of this controversy;

- On 11 February 2002 at 1425, Ms. Hurtova withdrew CZK 499,000 from H&B Real’s company bank account, 400m from Vsetin City Hall
- On 14 February 2002, Mr. Cunek deposited CZK 497,000 in 1,000 notes in his own bank account.

H&B Real is a property firm that formed a joint venture with the city of Vsetin to acquire and then dispose of a large number of apartments. Ms. Urbanova alleged that Mr. Cunek received money from H&B Real because they had been given an advantage by Mr. Cunek in his

capacity as Mayor. The coincidence in timing between these two financial transactions has supported theories of corruption.

This report provides some answers to three questions:

- Could H&B Real have gained an advantage such as to provide a motive to reward Mr. Cunek?
- Can Mr. Cunek provide convincing explanations as to the legitimate sources of his family's wealth?
- How coherent is the evidence that a bribe took place on 11 February 2002?

The answers that Kroll has been able to obtain to those questions are what follows in this report.

METHODOLOGY

Mr. Cunek has fully cooperated with our inquiry and met with Kroll investigators on four separate occasions. He was helpful in assisting Kroll with access to his family members, business associates, and former employers. They include Mr. Cunek's wife Pavla Cunkova, his cousins Jan Machu and Petr Kozacek, and former Zbrojovka Vsetin chief executive Karel Dancak.

Mr. Cunek also provided Kroll with a copy of his police file which comprises almost 4,000 pages. We have reviewed the file, which contains witness testimonies gathered by the police, Mr. Cunek's family's financial and real estate records, Vsetin town records, telephone logs and other important documents.

However, we note that some of the information listed in the table of contents of the police file is missing from the dossier. For example, one such document was the final valuation of Vsetinske Byty, the joint real estate company set up between the city of Vsetin and entrepreneur Petr Hurta, which forms the core of the bribery allegations. The valuation, which starts on page 403 and ends on page 552, possibly contains the most complete assessment of the value of Vsetinske Byty. It was prepared by an independent assessor NOVA s.r.o. retained by the police. Other, likely less significant, sections are also missing, comprising pp 353-700 and 1775 – 2116. Mr. Cunek has told Kroll that he has not gone through all of the file and did not know what was missing.

Kroll visited Vsetin and interviewed sources familiar with Mr. Cunek and individuals involved in the Vsetinske Byty transaction. We spoke with Viktor Syptak, owner of JASY Vsetin a.s., which built Mr. Cunek's family home; Stepan Gargos, chief executive of COOP Therm, the real estate management firm which attempted to join Vsetin in Vsetinske Byty but lost to H&B Real; Alexander Beran, chief executive of NOVA s.r.o., an independent appraiser hired by the police to assess the value of Vsetinske Byty; and Vsetin Deputy Mayor Jaromir Kudlik. Kroll also visited the offices of H&B Real in Vsetin and met Petr Hurta, who repeatedly declined to be interviewed. Kroll also interviewed Martina Hurtova.

We have also reviewed the layout of the executive floor of Vsetin city hall, where the alleged bribe supposedly took place.

Kroll also reviewed thousands of pages of Czech media reports, and additional corporate, real estate, and other public records.

All sources were told by Kroll that information provided by them will not be made public and will be used solely for the purpose of this confidential report.

FAMILY BACKGROUND AND BIOGRAPHY

Jiri Cunek was born on 22 February 1959 in Zlin in central Moravia.

Mr. Cunek's education does not extend beyond high-school. Starting in 1974, he attended for three years a vocational school in the Moravian town of Napajedla. In 1977 he took a job as auto mechanic in Zlin and went to evening classes at a local high school training students for industrial middle-management jobs. Upon graduation in 1982, he took a position as safety technician with armaments company Zbrojovka Vsetin.¹ Zbrojovka manufactured machine guns, aircraft guns and and ammunitions.²

Mr. Cunek is married to Pavla Cunkova, nee Ulehlova. They have four daughters: Eva, Jana, Hana and Veronika. Ms. Cunek is a dentist and runs a private practice in a suburb of Vsetin.

Prior to Mr. Cunek's entry into politics, the Cuneks appeared to live the life of a typical Czech middle class family. They lived in an apartment in a prefabricated housing complex in Vsetin and were saving up to build a family home.

Mr. Cunek's compensation records show that between 1982 and 1994 the family's income including social benefits was CZK 778,846, or about CZK 5,400 per month on average. The Cuneks started making significantly more money in the mid 1990s, when monthly income reached CZK 17,000.

Still, the broader Cunek family appears to have had larger assets. When Mr. Cunek's father Josef died in a car accident in 2006, he left property appraised at CZK 3.7 million, including CZK 1.17 million in cash. Mr. Cunek's cousin Jan Machu was a successful professional in Prague. He was employed by Sun Microsystems as general sales manager for Czech Republic and Slovakia. Czech IT industry professionals told Kroll that Mr. Machu could earn as much as CZK 200,000 in monthly income and upwards of CZK 2.4 million in annual bonus, in the 1990s.

Another cousin, Petr Kozacek, was the co-founder of Ruchstav Holding, an Opava-based investment group that held over three hundred million koruna of assets.

Kroll learned through interviews with Messrs. Cunek, Machu and Kozacek that Mr. Cunek's business association with Mr. Machu and particularly Mr. Kozacek has brought him additional income not included in the compensation summary provided to Kroll by the state appointed auditor.

¹ Mr. Cunek curriculum vitae, Mr. Cunek police dossier; file D section 5

² Source ZVI a.s.

4 EMPLOYMENT HISTORY

4.1 Zbrojovka Vsetin

Mr. Cunek joined Zbrojovka Vsetin as a safety technician in 1982, upon receiving his high school diploma in 1982. In 1993, after a decade with the company, he was promoted to Chief Safety Manager.³

It was at this time that Mr. Cunek became involved in politics. He became an active member of KDU-CSL, which was beneficial for his career because KDU-CSL was influential at the Czech Defence Ministry. The former Zbrojovka Chief Executive Karel Dancak⁴ told Kroll that Mr. Cunek used his contacts to help Zbrojovka deal with two “big problems“ threatening the survival of the company. He also said that Mr. Cunek was active in helping Zbrojovka lobby the ministry for at least one large government military contract.

Mr. Dancak said that in the early 1990s the state-owned Zbrojovka was a money-making enterprise, but that profit stripping by the government brought it near to collapse. “In 1990, we made CZK 236 million in operating profit which was taxed by 75%,” the executive said. “On top of this we had to pay the government a fixed payment of CZK 60-75 million. This pushed us into insolvency,” he explained.

Mr. Dancak said that Mr. Cunek had good government-level contacts and often travelled to Prague to “inform members of the government about our situation.“ He said that it was his understanding that Mr. Cunek was already “involved in national KDU-CSL bodies.”

The executive said that although Zbrojovka failed to persuade the government to change the tax regime, the company never remitted the owed tax and was never punished for it.

Mr. Dancak said that Zbrojovka experienced a second “life-threatening” moment in 1993, during the break-up of Czechoslovakia. He said that the company owned CZK 1 billion worth of forest land located in a contested border area between the Czech Republic and Slovakia. He said that the amount represented one third of Zbrojovka’s core assets and that “without it the company would fail.” The executive said that Mr. Cunek started again travelling to Prague and helped the arms maker negotiate a deal with the government that “allowed the company to restructure its assets.”

Finally, Mr. Dancak said that Mr. Cunek was involved in Zbrojovka’s efforts to win a government contract for the Plamen machine gun commissioned for the Czech-made L-159 military jet. The executive said that Zbrojovka was “the only company in the Czech Republic who had the capability to produce” the weapon, but that other companies, most notably the much larger Skoda Plzen, were also bidding. The executive noted that prominent KDU-CSL member Miroslav Kalousek, currently the Czech finance minister, served at the time as

³ Ibid.

⁴ Karel Dancak, CEO Zbrojovka 1990 - 1995

deputy minister of defence responsible for acquisitions and budget. "They definitely knew each other," the Zbrojovka executive said. "They knew each other from some [party] committee." Kroll notes that the Defence Minister at the time was also a KDU-CSL member.

The contract was reportedly valued at CZK 1.3 billion and was awarded to Zbrojovka in September 1995.⁵

Mr. Dancak was not explicit as to how Mr. Cunek was compensated for his lobbying efforts. However, he implied that the reimbursement for Mr. Cunek's travel expenses was generous, and told Kroll that the travel Mr. Cunek had undertaken on the company's behalf was extensive. Travel expense reimbursement does not have to be declared as taxable income and was paid in cash.

Mr. Dancak told Kroll that employees received performance cash bonuses. He said that Mr. Cunek would have received bonuses as Chief Safety Manager since "there were no serious injuries on his watch."

Mr. Dancak said that employees were paid in cash in the 1990s because "people did not have bank accounts and the company did not have the capability to do [individual] bank transfers." Kroll understands this situation changed in the late 1990s.

Mr. Cunek left Zbrojovka in August 1997. Zbrojovka filed for bankruptcy in 1998.

4.2 **Nova Spolocnost and Zeveta Bojkovice**

Mr. Cunek had other ties to the arms industry besides Zbrojovka during the 1990s. In 1993 he was elected to the board of Zeveta Bojkovice, a Czech ammunition manufacturer which had been recently privatised. Kroll does not know what relationship, if any, Zeveta had with Zbrojovka.

Mr. Cunek was nominated to the board by Zeveta shareholder Nova spolocnost a.s. ("NS"). NS was a Slovak investment fund based in Kosice. It acquired Zeveta shares during the first round of the voucher privatisation.

Mr. Vybostok, a former NS partner and manager told Kroll that he knew Mr. Cunek "socially" from before 1989. It became clear they knew each other from church.

Mr. Vybostok told Kroll that in 1992 NS held "about a 10 percent stake" in Zeveta and that it was looking for a nominee for the board of directors. He said that he approached Mr. Cunek because he had "known him from before. He was active, he looked like a suitable type."

The manager said that Mr. Cunek served on the board of Zeveta "until [the company] went into bankruptcy." A review of Zeveta's corporate filings shows that Mr. Cunek served as a

⁵ "Kdo uhasi plamen," Tomas Sousek and Pavel Lang, June 2002, Czech Ministry of Defense, www.army.cz

director from August 1993 until August 1994, when he was appointed deputy chairman of the board. He held that seat until February 1995, when the company's assets were liquidated. It appears that the company was later reorganised and is currently in operation.

Mr. Vybostok said that Mr. Cunek was not compensated by NS but that he was paid by Zeveta. He also said that Mr. Cunek travelled frequently to Zeveta meetings, which took place in Bojkovice, about 50 kilometres from Vsetin, as well as in Brno, Bratislava, and even Vienna - the company had "international shareholders" from Austria, the manager said. He said that Mr. Cunek was "reimbursed" for his travel by Zeveta.

Mr. Vybostok said that Mr. Cunek did not represent NS in any other company.

4.3 **Ruchstav group**

In October 1997, after leaving Zbrojovka, Mr. Cunek joined a small securities brokerage firm called Akcie s.r.o.⁶ Akcie was connected to Ruchstav Holding a.s., an investment and holding company co-founded by Mr. Cunek's cousin Petr Kozacek.

According to Czech corporate records, Akcie had just one director, Jan Lindovsky. Mr. Lindovsky was also the sole shareholder. The company had an address at Dolni Namesti 3 in Opava, in a building still owned by Ruchstav. Mr. Kozacek told us that he controlled Akcie himself along with his business partners.

Although Mr. Cunek was employed by Akcie s.r.o., he provided services and managerial support to other companies within the Ruchstav group, according to both Mr. Cunek and Mr. Kozacek.

Mr. Kozacek described Mr. Cunek as "an ordinary employee." However he also said that Mr. Cunek was "helping [Ruchstav] with privatisation projects when we had problems with land." He said that local real estate registries were "messy" and property titles were not clear. "For example, we would find that in the middle of a piece of land we wanted to buy [in privatisation] there would be 300 square meters that belonged to somebody else," Mr. Kozacek said. "He would often travel to Prague, reach out to people at various ministries to get it sorted out."

Mr. Cunek was also buying for Ruchstav "blocks of shares in companies," and managed a farm in Belotin, a small town in Moravia.

Ruchstav Holding was established on 5 February 1996 in Bruntal, a small town in northern Moravia some 40 kilometres west of Opava. The company had an initial share capital of CZK 179.2 million, which was divided into bearer shares valued at CZK 100,000 each.

On 18 June 1996 the share capital was increased by more than half to CZK 285.2 million. The new capital was paid in by Mr. Kozacek, his business partners Frantisek Machan and Karel

⁶ The files from the Police investigation that relate to Akcie s.r.o. have not been located and do not form part of this investigation.

Pavlik, and by Ruchstav s.r.o., Ruchstav Holding's sister company. The increase was executed with CZK 100 million worth of shares held by Mr. Kozacek and his business partners in the building contractor Ingstav Opava and the industrial bakery Pekarny a Cukrarny Sumperk.⁷

Ingstav Opava and Pekarny a Cukrarny Sumperk were privatised during the first round of the voucher privatisation. Ingstav had a number of large infrastructure projects in the north Moravian region, including the Slezska Harta hydroelectric dam.

Ruchstav Holding also controlled a small stake in a local bank, Prvni Slezska Banka a.s.,⁸ and other property valued at around CZK 66 million. According to Czech Land Registry files, its real estate holdings included the offices at Dolni Namesti in central Opava and Trida Prace in Bruntal, the Andel Hotel in Andelska Hora in northern Moravia, and a holiday home in Sucha Rudna.

In September 1998, Ruchstav Holding disposed of its 67.87 per cent stake in Ingstav Opava for an undisclosed sum.⁹ The stake was acquired by Prvni Hybernska, an investment company controlled by Jiri Baron. According to Mr. Kozacek, Mr. Cunek was not involved with any aspect of the Ingstav sale.

Ingstav rapidly collapsed following the sale. Roman Podgrabinsky and Svatopluk Mayer, Ingstav's new managers, were investigated for financial crimes related to the collapse of Ingstav. Ingstav entered into liquidation and was subsequently acquired by the Tchas group.

Pekarny a Cukrarny Sumperk, the other large holding in Ruchstav's portfolio, ceased to exist in 2004, Czech corporate records show.

On 15 October 1998, Akcie had its brokerage license revoked by the Czech Securities Commission.¹⁰ The relevant decision was filed as 112/2 429/98, and states that the license was revoked because Akcie did not have any stockbrokers. Kroll has found no evidence at this time suggesting that Mr. Cunek was responsible for any breach of Czech securities trading laws.

Mr. Cunek had various transactions with Ruchstav during his association with the company. For example, the Czech media reported that Mr. Cunek borrowed Ruchstav Holding's shares in late 1998. Mr. Cunek stated in the press that the shares were to be used in an unidentified transaction, but this transaction does not appear to have taken place.¹¹

⁷ Ingstav a.s. was registered on 1 May 1992. The company was spun out of state construction group Ingstav Brno. Ruchstav Holding acquired 67 per cent of the shares in the first round of voucher privatisations. The remainder was owned by small investors.

⁸ Prvni Slezska Banka was founded in 1992. The bank increased share capital in March 1996, but this was not enough to prevent the Czech National Bank withdrawing their operating license in May 1996. Liquidation proceedings commenced in July 1996.

⁹ *Hospodarske Noviny*, 14 October 1998

¹⁰ <http://www.kurzy.cz/zpravy/3998-komise-pro-cenne-papiry-rok-cinnosti-komise-pro-cenne-papiry/>

¹¹ *Euro*, April 2008

Mr. Cunek told Kroll he had no recollection of borrowing money from Ruchstav however he did recollect giving the Ruchstav group a personal loan. This loan had not been repaid by the time Mr. Cunek took up public office in Vsetin in 1998.

Mr. Kozacek told Kroll that Mr. Cunek started to worry about his loan and asked for guarantees in late 1998. Kroll notes that his actions to secure the loan followed the loss of his CZK 1 million savings in the collapse of Universal Banka. On a macroeconomic level, the Czech economy was experiencing a significant downturn in the wake of the 1998 Asian crisis and Russia's sovereign debt default.

On 23 December 1998, Mr. Cunek acted unilaterally to secure his loan. Mr. Kozacek says Mr. Cunek used his notary powers at Ruchstav to sign over a one-third ownership of the holiday home in Sucha Rudna, and this has been confirmed by Mr. Cunek. This action directly led to a "falling out" with Kozacek.

4.4 **Business Plans With Jan Machu**

Mr. Cunek told Kroll that he joined Akcie s.r.o. because the job "was not too time consuming" and allowed him to pursue his goal of starting his own business.

Starting in 1998, Mr. Cunek and his cousin Jan Machu started making plans for a computer and software company.

Mr. Machu told us he provided CZK 1.5 million in seed capital and Mr. Cunek started looking for suitable warehouse facilities in industrial zones between Brno and Ostrava. They were planning to sell computer hardware and software and provide IT support and services. Mr. Machu told Kroll that the cousins planned to sell brands like IBM, Dell, HP, and Lotus.

Mr. Cunek was using his contacts to identify properties and write letters of intent.

But the plans fell through after Mr. Cunek was elected Vsetin Mayor and Mr. Machu fell ill. Mr. Machu said that when Mr. Cunek was elected Mayor "[their] business was over."

Mr. Machu told us he suffered from pulmonary embolism and spent two months in a hospital in early 1999 and another year on medical leave.

Mr. Machu said Mr. Cunek kept the seed capital and repaid it to him by 2003 "in instalments".

4.5 **Appointment as Mayor**

Mr. Cunek joined the KDU-CSL party in 1994. He was briefly the Deputy Mayor of Vsetin between December 1995 and March 1996. He was elected as Mayor in 1998.

Local elections had been held on 13-14 November 1998 across the Czech Republic. In Vsetin, which had been controlled by ODS for eight years, no one party dominated the local elections. The 21 seat council was split, with no party gaining more than three seats. However, there was a general consensus that ODS should no longer remain in power. A new coalition was formed without ODS or Communist representation.

Mr. Cunek's role in discussions to form a new coalition was not reported in the national press. As local party chairman, he is likely to have been involved in striking a deal. Mr. Cunek's appointment was officially announced 5/6 December 1998.¹²

4.5.1 *Vsetinske Byty*

Mr. Cunek was elected as Mayor of Vsetin in December 1998.

Vsetinske Byty s.r.o. was a joint venture established in 1999 by the city of Vsetin and Petr Hurta's real estate firm H&B Real. Events surrounding Vsetinske Byty lay at the core of Mr. Cunek's bribery case. The Czech anti-corruption police started investigating Mr. Cunek after they learned from Mr. Cunek's former secretary Urbanova that Hurta allegedly bribed Mr. Cunek with CZK 500,000 in exchange for selecting H&B Real as the city's partner in Vsetinske Byty. The city later sold its majority stake in Vsetinske Byty to H&B Real. Mr. Cunek himself lived at an ex-Zbrojovka property that had been a co-operative since 1979.

When Czech prosecutor Arif Salichov dropped the investigation of Mr. Cunek on 16 November 2007, he wrote that his review of the case "completely refuted" allegations that Mr. Cunek "played any active role in giving H&B Real an advantage in securing a stake in the firm Vsetinske Byty and buying out the city's stake."

¹² BBC Monitoring, 6 December 1998

5 **COULD H&B REAL HAVE GAINED AN ADVANTAGE SUCH AS TO PROVIDE A MOTIVE TO REWARD MR. CUNEK?**

In order to reconstruct the circumstances surrounding the formation of Vsetinske Byty, Kroll interviewed primary sources, reviewed documents in Mr. Cunek's police file, and consulted other Czech public records.

Vsetinske Byty was established in April 1999. The company's purpose, stated by Mr. Cunek and other Vsetin officials, was to buy some 700 apartments from Zbrojovka Vsetin ("Zbrojovka"), the bankrupt Vsetin-based maker of arms and industrial machinery. Mr. Cunek declared on a number of occasions that the city wanted to buy the apartments to "prevent speculators" from exploiting their tenants. Mr. Cunek promised to sell the apartments to tenants at the lowest possible price.

5.1 **Zbrojovka Bankruptcy**

Zbrojovka once was Vsetin's dominant employer. It had as many as 7,000 workers and housed many of them in hundreds of company-owned flats. In 1998, after Zbrojovka filed for bankruptcy at the Regional Business Court in Ostrava, the company's assets were administered by bankruptcy trustee Jan Zetocha. Zbrojovka's bankruptcy petition signed by Mr. Zetocha valued the company's 657 apartments at CZK 27 million. The court approved Mr. Zetocha's bankruptcy petition on 17 December 1998 and Mr. Zetocha solicited offers for the flats.¹³

According to Mr. Zetocha's sworn police testimony only two companies bid for the apartments: Helago s.r.o. and Valachia s.r.o.

Valachia was immediately disqualified because it did not enter a firm bid and thus failed to meet the conditions of the tender.¹⁴ On 19 December 1998, Helago sent a letter to Mr. Zetocha and offered to buy Zbrojovka's apartments for CZK 42 million.¹⁵

But Helago failed to pay a required 10% deposit and was disqualified as well.¹⁶ Mr. Zetocha also told the police that Helago changed its offer just before the bid was placed. "I thought that something fishy was going on," he testified.¹⁷ It appears that Helago lowered the bid from CZK 60 million to CZK 42 million just before it entered its bid. Mr. Zetocha told the police in his statement that the CZK 60 million figure was whited-out in the typed offer and somebody wrote in CZK 42 million by hand.

¹³ "Usneseni," jednaci cislo 8 K 32/96, Krajsky obchodni soud v Ostrave, 12/17/1998

¹⁴ Mr. Zetocha police deposition, taken on May 2, 2007, Mr. Cunek file page 1662

¹⁵ Letter from Helago to Jan Mr. Zetocha, dated December 12, 1998, Mr. Cunek file page 1675

¹⁶ Osvedceni o vyhodnoceni verejneho navrhu, December 21, 1998, Mr. Cunek file page 1676

¹⁷ Mr. Zetocha police deposition, taken on May 2, 2007, Mr. Cunek file page 1663

Mr. Zetocha called a creditors' meeting for 13 January 1999. At that meeting he started discussing Vsetin's interest in buying the Zbrojovka apartments. Mr. Zetocha said that Mr. Cunek, who was elected Mayor in December 1998, proposed to match the CZK 42 million price offered by Helago.¹⁸

5.2 COOP Therm Attempts to Buy Zbrojovka Apartments

One other company was interested in buying the apartments in 1998: COOP Therm. COOP Therm was a utilities company based in the Czech town of Jindrichuv Hradec. In early 1998 Zbrojovka hired COOP Therm to manage the company apartments, administer apartment leases, collect and enforce delinquent rent payments, carry out repairs, and provided other services.¹⁹

COOP Therm knew the Zbrojovka apartments well. In the 1990s the company installed flowmeters in the flats. It claims it is still owed CZK 1,800,000 for the job.

COOP Therm had twice proposed to buy the Zbrojovka apartments: in August 1997 and again in March 1998.²⁰ The company offered to assume CZK 5,300,000 in debt Zbrojovka owed to heat, water and sewer suppliers.²¹

It is not clear why COOP Therm did not enter a bid for the flats in the bankruptcy sale.

COOP Therm's general manager Stepan Gargos told the police that COOP Therm initially offered to pay "around CZK 30 million" for the apartments. He stated he negotiated the purchase with Zbrojovka's chief executive officer Rostislav Levicek. He told the police that he "did not recall that the city would be too interested" in the property at the time.²²

Mr. Gargos also testified that he was contacted by Petr Hurta during the second half of 1998. (This would be before Mr. Cunek was elected Mayor.) Mr. Gargos stated that Mr. Hurta "asked us for a meeting which took place at their headquarters in Vsetin. At this meeting he asked us whether our company would loan his firm money to purchase these apartments. We declined this because we were interested in buying the apartments. We also declined his request to let his company manage the apartments. That's how we parted."²³

Mr. Gargos confirmed to Kroll his meeting with Mr. Hurta.

Mr. Gargos also testified that sometime after the meeting with Mr. Hurta, he received a phone call from Mr. Cunek. He said that Mr. Cunek asked him whether he had made up his mind

¹⁸ Mr. Zetocha police deposition, taken on May 2, 2007, Mr. Cunek file page 1662

¹⁹ Smlouva o obstarani spravy bytu a nebytovych proctor, March 25, 1998. Mr. Cunek file page 1619

²⁰ Letter from Stepan Gargos to ing. Fic, COOP Therm, August 14, 1997, Mr. Cunek file page 1615

²¹ Smlouva o budoucim prevzeti dluhu, March 25, 1998, Mr. Cunek file page 1629

²² Gargos police deposition, taken on April 19, 2007, Mr. Cunek file page 979

²³ Gargos police deposition, taken on April 19, 2007, Mr. Cunek file page 980

about how much he was willing to pay for the apartments. "I answered that my partners agreed to make the purchase for CZK 41 million," he testified. Mr. Gargos stated that "during this call Mr. Cunek was talking to some other person – this person must have been standing next to him – and repeated that we wanted to pay CZK 41 million for the apartments."²⁴

Mr. Gargos told Kroll that he believed that the person Mr. Cunek was talking to was Hurta. Kroll asked Mr. Cunek about the telephone call and he denied that he was talking with Hurta. "It was most likely one of my colleagues," he said.

Documents in Mr. Cunek's police file show that Gargos and Mr. Cunek discussed details of the sale. On 5 February 1999, Gargos sent Mr. Cunek a letter announcing that COOP Therm executives "approved the result of our negotiations" and decided to buy the Zbrojovka apartments together with the city of Vsetin. Mr. Gargos said that COOP Therm would finance the purchase with its own money and proposed to discuss "technical aspects" of the contract between 15 February and 19 February 1999.²⁵

On 1 March 1999, Mr. Cunek sent Mr. Gargos a set of six conditions the city required for the deal to go through. The letter put the sale price at CZK 42,009,999, with a 10% down payment, and asked Mr. Gargos to reply by 3 March 1999.²⁶

Mr. Gargos replied on 3 March 1999 and agreed to all of Mr. Cunek's conditions including the new price. His letter also included a detailed breakdown of costs and profits.²⁷

Mr. Gargos testified that this was the last time he heard from Mr. Cunek regarding the apartment deal. "We never received any official reply," Mr. Gargos told the police.²⁸ On 19 May 1999, Mr. Gargos received a letter from Mr. Zetocha. Mr. Zetocha wrote that he cancelled COOP Therm's management contract and that the city of Vsetin now owned the apartments.²⁹ H&B Real became the new manager.

Mr. Gargos told Kroll that he felt that Vsetin "played a dirty trick on us." He said that he visited Vsetin "once a week or once every two weeks. I was not invited to speak before the city assembly."

Mr. Gargos told Kroll that at the time the deal was awarded to H&B Real, "there were rumours that [Hurta] was building [Mr. Cunek's] house. However, Kroll notes that Mr. Cunek did not start building his house until 2001-2002. Mr. Cunek was granted his construction permit on 8 August 2001. Records show that the Mr. Cunek requested to commence building on 5 December 2001.

²⁴ Gargos police deposition, taken on April 19, 2007, Mr. Cunek file page 980

²⁵ Letter from Gargos to Mr. Cunek, February 5, 1999, Mr. Cunek file page 1035

²⁶ Koupe bytu od upadce Zbrojovky Vsetin, a.s. – navrh podminek , March 1, 1999, Mr. Cunek file page 1036

²⁷ Gargos reply to Mr. Cunek, March 3, 1999, Mr. Cunek file page 1037

²⁸ Gargos police deposition, taken on April 19, 2007, Mr. Cunek file page 980

²⁹ Mr. Zetocha letter to Gargos, May 19, 1999, Mr. Cunek file page 1039

5.3 Vsetin Selects H&B Real For Vsetinske Byty

Vsetin city deputies selected H&B Real as the town's partner in Vsetinske Byty at a meeting on 16 March 1999. It appears that the meeting was attended by all 21 deputies, including Mr. Cunek, although it is not clear that all 21 deputies were present when Vsetinske Byty was discussed. Vsetinske Byty was No. 20 on the meeting agenda out of 23.

The proposal to select a partner for the city in Vsetinske Byty was presented by Mr. Cunek at the meeting. Two possible partners were introduced: COOP Therm and H&B Real. Kroll notes that Petr Hurta was present and spoke at the meeting. Nobody from COOP Therm was present.³⁰ Mr. Gargos told Kroll that he was not invited.

Mr. Hurta told the deputies that he had carried out market research and that he expected to sell 70% of the apartments within the first year and 90% within three years.³¹

Mr. Cunek proposed to vote on the proposal after Mr. Hurta finished speaking. He first asked the deputies to vote on selecting COOP Therm "based on the documents and calculations presented." The documents showed that COOP Therm planned to sell the flats at a cost per square metre of CZK 2,087.40. H&B Real planned to sell at a cost per square metre of CZK 1,907.00. Nobody supported COOP Therm. Sixteen deputies voted for choosing Hurta.³²

The apartments eventually sold for CZK 1,963 per square metre against an average market price in Vsetin of CZK 7,000.

Based on the meeting minutes, the discussion regarding Vsetinske Byty likely didn't take more than 10 minutes.³³ Several of Vsetin deputies were questioned about the meeting by the police in 2007. The vast majority could not recall exactly why H&B Real was selected and why COOP Therm was not invited to the meeting.

Kroll asked Mr. Cunek about the vote and whether Mr. Gargos was invited. He said that since H&B Real had already been endorsed by the city finance committee, he only invited Mr. Hurta and not Mr. Gargos. He said that deputies effectively rubberstamped the decision made by the finance committee.

However, the endorsement of the finance committee is not apparent from the minutes of the city hall meeting. It is not clear either who were the members of the committee that approved the transaction with Mr. Hurta. Deputy Mayor Mr. Kudlik told Kroll that the committee was an "advisory" body consisting of "appointed members selected by the [elected] deputies." He said that "their recommendations are not binding."

³⁰ City hall meeting minutes from March 16 meeting, Mr. Cunek file, page not numbered

³¹ City hall meeting minutes from March 16 meeting, Mr. Cunek file, page not numbered

³² City hall meeting minutes from March 16 meeting, Mr. Cunek file, page not numbered

³³ City hall meeting minutes from March 16 meeting, Mr. Cunek file, page not numbered

From the police file it seems that the police did not press Mr. Cunek on the role of the Finance committee or examine it further.

5.4 **Sale of the city's stake in Vsetinske Byty to H&B Real**

Vsetinske Byty was registered as a corporation on 26 April 1999. The company took out a loan from Komerční Banka (KB) for CZK 42,010,000 which was used to acquire the Zbrojovka apartments. Mr. Cunek and the General Manager of H&B Real, Mr. Hurta, were the directors of the joint venture.

The flats went on sale from April 1999 for an average price of CZK 120,000. In the first two years, the majority of the portfolio was sold. From 1 July 1999 to 15 July 2000, 559 apartments were sold, for a total of CZK 60,706,977.60 at an average price of CZK 1963 per square metre.

In October 2001, 98 apartments and 1 garage remained unsold. Sales in 2001 had dropped to CZK 215,593. An independent specialist, Vlastimil Zajicek, was tasked by the council with valuing their 51 per cent stake.

On 9 October 2001, the town council discussed the sale of Vsetinske Byty. According to the notes from the meeting, the item was proposed by the mayor. The other motions for the day's meeting were put forward by other officials.

The vote was carried by 16 votes. The mayor, in proposing the disposal, stated that he had the information on the sale with him for review, but had not provided it to everyone present because it was voluminous. Ms. Matochova, head of the finance department, and Ing. Pucek, the secretary of the council, were appointed to oversee the project.

The agreement to transfer control of Vsetinske Byty to H&B Real was signed on 23 October 2001.

Mr. Zajicek valued the stake at CZK 3,618,000.

Kroll notes that in calculating the company's liabilities, Mr. Zajicek did not include the reserve, CZK 11,898,000, but included in short term loans a deferred tax charge of CZK 3,970,000. The combined effect of these is to significantly reduce the value of the joint venture.

The cash reserve was intended to pay for repairs on each of the apartments. As the apartments were sold, the cash reserve should have reduced proportionately. Why there was such a large sum when so many of the properties had been sold raises questions about the joint venture's management.

Messrs. Cunek, Zajicek and Hurta told Kroll that the reserve was just an accounting item and did not represent actual cash. An independent court appraiser contacted by Kroll agreed with this interpretation. Further research is required to fully ascertain the state of the matter.

Mr. Zajicek also does not mention who were the short term creditors/debtors to the business. H&B Real had previously taken short term loans from Vsetinske Byty.

An agreement was signed with H&B Real on 23 October 2001, transferring the city's stake. Mr. Cunek resigned as a director.

The Mr. Zajicek valuation became a matter of dispute and the police hired an independent appraiser, NOVA s.r.o., to determine whether the sale price was too low.

Using Mr. Zajicek's numbers, NOVA valued the Vsetin stake in Vsetinske Byty at CZK 6.7 million in February 2007. NOVA's chief executive Alexander Beran told Kroll that NOVA completed another valuation of Vsetinske Byty in April 2007. That valuation was based on Vsetinske Byty's books rather than figures provided by Mr. Zajicek and involved a three day visit to Vsetin by four NOVA auditors. Also, Mr. Beran told the police that he met with Ms. Hurtova in March 2007 and that Ms. Hurtova cooperated and provided documents for his audit.

However, NOVA's April 2007 report is missing from Mr. Cunek's police file. Kroll asked Mr. Beran to provide another copy which he has not done to date. Without this valuation it is hard to determine whether the amount paid by H&B Real was a fair price.

Kroll finds it significant however that H&B Real was left with some 100 apartments after the buy-out. At the time (1999-2002), these apartments were selling for about CZK 2,000 per square metre. According to Zajicek, the market price for an apartment in Vsetin was CZK 7,000 per square metre in 2001. But Zajicek valued the unsold apartments at just CZK 327 per square metre. Their tenants apparently did not want to buy their flats and Hurta could not evict them because they had unrestricted leases. Such apartments had a total size of 3,558 square metres.

For comparison, a Czech real estate agent researched prices for Kroll and found that Vsetinsk Byty apartments would "sell only in exceptional circumstances for prices below CZK 20,000 per square metre today." This means that should one of the unsold apartments now come up for sale, Hurta's profit would be CZK 19,673 per square metre. This suggests that a fraction of the unsold apartments, sold today, would be worth more than the amount paid by H&B Real to the city.

Mr. Cunek and Deputy Mayor Kudlik have repeatedly told Kroll that Mr. Hurta was not required to pay the city any money beyond the CZK 51,000 Vsetin initially invested. They said that Mr. Hurta carried all of the economic risk of the transaction. Mr. Kudlik pointed out that there was a recession in 1998 and "it was not certain at all" that Vsetinske Byty [would] be able to sell the Zbrojovka apartments. He said that the contract with Mr. Hurta was "written in such a way to allow the city to exit after a year if sales went poorly."

Mr. Cunek stressed that the city did not invest any money in the deal. He also stressed that the deal appeared lucrative only in hindsight.

Kroll has reviewed the founding statutes of Vsetinske Byty and found that the city initially set in writing that it would transfer its share to Mr. Hurta for CZK 51,000 one year after it offers the last apartment for sale. However on 9 April 1999, the city amended the clause. It anticipated that the market value of its share may be more than the nominal value of CZK 51,000. It reserved the right for itself to name the price for its 51% stake and give Mr. Hurta the right of first refusal. If Mr. Hurta declined to pay that price in 30 days, the city could sell its stake to a third party. The statutes also say that “neither party may unilaterally exit the company” which means that the financial risk of the development was shared between both parties.

Mr. Cunek also said that when Vsetinske Byty received a multi-million tax rebate from the apartments sales, the city pressured Mr. Hurta to distribute the money to the apartment buyers, rather than keeping it. Kroll has been able to partially validate this claim. We were able to validate that a letter from Vsetinske Byty regarding the back tax to apartment buyers exists.

6 **CAN MR. CUNEK PROVIDE CONVINCING EXPLANATIONS AS TO THE LEGITIMATE SOURCES OF HIS FAMILY'S WEALTH?**

6.1 **Mr. Cunek's declared financial assets**

According to tax and other official records obtained by the police, the Cuneks earned, either as wages or through declared profits in Ms. Cunek's dentist surgery, CZK 8,379,479 in the period from 1982 to 2006. They also received a total of CZK 212,331 in benefits payments.

In the period prior to Mr. Cunek's appointment as mayor, the couple had declared earnings of CZK 1,512,199 and CZK 171,554 in benefits payments.

Mr. Cunek has stated in the press that he deposited CZK 1,000,000 in savings (equivalent to almost 60 per cent of his total earnings) prior to his appointment as mayor of Vsetin in December 1998. Kroll considers that a deposit of this size could have been made by Mr. Cunek only if he had additional sources of income.

Kroll has established that Mr. Cunek did indeed have alternative sources of income. Kroll estimates that Mr. Cunek's personal assets in 1998 were considerably higher than previously estimated by the police.

6.2 **Mr. Cunek's other financial assets**

Mr. Cunek has told Kroll that the primary source of his additional revenues during the 1990s were expense reimbursements. This has been confirmed by Messrs Vybostok, Dancak and Kozacek. Given the distances he was travelling it is likely that he earned hundreds of thousands of koruna in this way and much more if he was given a generous mileage rate. Kroll notes these were not declared in his tax returns.

Other sources of revenue have also been identified by Kroll. Mr. Cunek was involved with a number of local entrepreneurs and businesses in the 1990s. He invested his capital in a number of ventures, some of which delivered successful returns, some did not.

In 1994, Mr. Cunek invested CZK 30,000 in a local machine tooling business, Avera s.r.o. He exited the business in April 1997, selling his stake to the other founding partners for an undisclosed amount.

Kroll has to date identified two unsuccessful investments made by Mr. Cunek. In November 1998, Mr. Cunek invested CZK 1,000,000 in a high interest account with Universal Bank. He lost a large proportion of his capital when the bank closed. In 2001, Mr. Cunek invested CZK 750,000 in an investment fund with CSOB. In 2005 he crystallised his investment at a loss, recuperating CZK 544,957.

Mr. Cunek deposited CZK 1,000,000 on 23 November 1998. He made the deposit at the Opava branch of Universal Bank, which was located approximately 200m from the offices of Akcie and Ruchstav, where he was working at the time.

Universal Bank closed the day after Mr. Cunek made his deposit, after the Czech National Bank withdrew its banking license over fears that the bank could no longer meet its capital requirements. Universal Bank's situation had been documented in the Czech press prior to its collapse. Mr. Cunek is likely to have been one of the last clients to deposit cash with the bank. Kroll has found no evidence of impropriety connected with this deposit.

Following the collapse of Universal Bank, Mr. Cunek was entitled to receive a portion of his investment through a deposit insurance scheme. The first payment under this scheme was for CZK 400,000 and was received on 17 May 1999. According to the audit contained in the police file, he received a second payment of CZK 64,000 in 2003. According to web pages maintained by the Czech National Bank, depositors were repaid from 1999 through to 2004.

Universal Bank was one of approximately ten Czech banks to go bust during the 1990s.

6.3 **Mr. Cunek's borrowings**

Kroll is aware of at least four examples of Mr. Cunek lending or borrowing significant sums of money. In 1998, Mr. Cunek made a loan to Ruchstav group of approximately CZK 500,000. The same year, he received a loan of CZK 1,500,000 from his cousin, Mr. Machu. In 2000, the Cuneks borrowed CZK 500,000 from an undisclosed associate to fund the acquisition of a dentist surgery. In 2001, Mr. Cunek borrowed CZK 900,000 from an undisclosed associate on a short term basis to demonstrate that he had sufficient funds to support his daughter, who was to visit Australia.

On 12 November 1998, Marie Ulehlova, Mr. Cunek's retired mother-in-law, deposited CZK 1,500,000 with Union Bank in Zlin. Mr. Cunek obtained signatory power over the account at the same time.

Ms. Ulehlova deposited the money on behalf of Mr. Cunek's brother-in-law, Petr Ulehla. Mr. Cunek had obtained the money from his cousin Mr. Machu to invest in a joint business.

Kroll has verified that Mr. Machu and Mr. Cunek were planning to set up a business together in Moravia, and that Machu had provided Mr. Cunek with the loan for this purpose. Kroll attempted to reach Petr Ulehla but Mr. Cunek said that he had died.

Mr. Machu was a highly paid IT salesman at the time, working for Sun Microsystems. Czech IT professionals familiar with compensation levels in the 1990s have confirmed that Mr. Machu could have earned and lent this amount of money to Mr. Cunek. Mr. Machu told Kroll that the loan amounted to his annual bonus for the year.

Mr. Machu did not immediately request the loan to be repaid when the business venture was abandoned. Mr. Cunek initially used the money to aid his brother-in-law.

Mr. Cunek deposited CZK 1,000,000 with CSOB on 9 November 1998. The money came from his parents.

According to the valuation of Josef Cunek's estate in 2006, which is included in Mr. Cunek's police file, he left approximately CZK 2.5 million in property and CZK 1.17 million in cash.

Kroll is satisfied that the family could have lent Mr. Cunek this amount of money in 1998.

6.4 **Dentist surgery**

In 1999, Ms. Cunek began working for MUDr. Jitka Benova at her dentist surgery in Vsetin. In late 1999 Ms. Benova fell ill and in 2000, passed away.

Ms. Benova's husband, Ladislav Bena, agreed a deal with Ms. Cunek on 23 February 2000 to rent the premises. She also agreed an option to buy the practice. Due diligence was conducted and on 30 November 2000 Mr. Bena sold the business to Ms. Cunek for CZK 912,000.

Ms. Bena received an initial payment in cash of CZK 500,000 on 30 November 2000. According to statements made to the police, this instalment was paid for using a loan made to Ms. Cunek by an unnamed friend. None of the Mr. Cunek's personal savings was invested in the business. Mr. Cunek did not reveal the identity of this friend during interviews with Kroll.

A second payment was made on 29 November 2001 for CZK 340,000 - the balance less CZK 72,000 in rental payments that were deducted according to the agreement. This payment was made from revenues according to Ms. Cunek.

Mr. Cunek told the police in a statement in January 2007 that his wife had not used personal funds to finance her business. He said that their savings were earmarked for their family house, which they had been saving for many years to build. However, Kroll found one instance in August 2002 when Ms. Cunek deposited CZK 200,000 in their personal account.

6.5 **Property**

Mr. Cunek currently owns a number of properties in the Czech Republic. These include the family home, a share in a holiday home and properties inherited from Mr. Cunek's late father.

In 1986, Mr. Cunek received a plot in Vsetin from his grandfather. The following year, Mr. Cunek received a co-op flat in Vsetin.

In 1988, Mr. Cunek acquired a plot in Vsetin on Plotky street. This street is located a short distance from the Zbrojovka flats where Mr. Cunek was residing. He would later build his family house at this site. He began by building a garage on the site in 1993.

The Cuneks enlarged the plot on which they planned to build their family home through a series of further transactions, beginning on 18 September 1996. Through subsequent transactions with their neighbours, the Woller family, the property gradually took on its present size and shape. As well as acquiring land from each other, the two families acquired two neighbouring plots when they became available.

Planning permission to commence building of their family home was granted on 8 August 2001. Mr. Cunek hired a local firm of building contractors, JASY Vsetin s.r.o., to undertake the work. The agreement was signed by Mr. Cunek and Pavel Hurta, a representative of JASY.

Kroll interviewed Pavel Hurta and confirmed that he is a cousin of Petr Hurta, owner of H&B Real. However, a JASY employee told Kroll that he was a “renegade” member of the Hurta family. The employee said that Pavel Hurta used to work for H&B Real, but left the company for a job “in Bohemia.” Upon his return he joined JASY, a competitor to Coleman SI, a Vsetin-based construction firm controlled by Petr Hurta. This account was confirmed by Pavel Hurta. Pavel Hurta told Kroll that he was construction supervisor at Mr. Cunek’s house.

A number of other contractors were also engaged to work on the project. Petr Hurta made a proposal to construct the roof, but a cheaper alternative was accepted. Kroll has found no evidence that any of the contractors received beneficial treatment from Mr. Cunek nor that they gave Mr. Cunek any preferential treatment.

On 26 January 2001, the Cuneks took out a mortgage for CZK 1.7 million with Komerční Banka (KB). On 28 November 2001 Mr. Cunek paid JASY the first instalment for the work. CZK 400,000 was paid in cash. On 15 February 2002, Mr. Cunek paid two further instalments from his bank account with KB. Records show payments of CZK 256,022 and CZK 100,000. A final payment was made by Mr. Cunek in November 2002. On 18 February 2002, Mr. Cunek also paid by bank transfer CZK 85,000 to Petr Cotek, a roof builder.

These 15 and 18 February 2002 payments, totalling CZK 441,022, are why Mr. Cunek told Kroll that he deposited CZK 497,000 into his bank account, the deposit that some allege came from the bribe. Mr. Cunek told Kroll that the builder asked to be paid by bank transfer, and that to do so he had had to deposit some of his cash reserve. Kroll notes that Mr. Cunek and his wife made other smaller, but substantial, cash deposits that year.

7 COHERENCE OF THE ALLEGATION THAT A BRIBE TOOK PLACE ON 11 FEBRUARY 2002

7.1 Marcela Urbanova's claims

Marcela Urbanova claims to have witnessed Martina Hurtova coming to the office of the mayor and giving him a bribe of approximately CZK 500,000 in cash.

According to Ms. Urbanova, Mr. Cunek called Petr Hurta in the morning, and requested that Mr. Hurta deliver CZK 500,000 to him before midday. Urbanova concluded that Mr. Hurta did not have the money at that time because Mr. Cunek then said that Ms. Hurtova could withdraw the funds from the bank.

According to Ms. Urbanova, Ms. Hurtova arrived at the mayor's office before Urbanova went out for lunch. She claims Ms. Hurtova handed Mr. Cunek a white A4 envelope which he tore open and pulled out a sheaf of bank notes, saying words to the effect of 'this is how you get rich'.

Ms. Urbanova reported that Mr. Cunek had pulled from the envelope CZK 1,000 denominated bills and that he had later made a cash deposit of 497 CZK 1,000 bills.

In her police statement, Ms. Urbanova described how she was able to see the hand over taking place, and the lay out of her office in relation to Mr. Cunek's.

Ms. Urbanova explained that Mr. Cunek did not disguise his personal or business affairs from his secretary. Mr. Cunek was very open towards her, and it was this kind of attitude that led to the allegations she made of sexual harassment.

Ms. Urbanova is currently being investigated in relation to giving false testimony over the bribery allegations.

7.2 Layout of the executive floor of Vsetin city hall

Kroll reviewed the layout of the executive floor of Vsetin city hall, where the alleged bribe took place. The office is located on the fourth floor of a busy office building in the centre of Vsetin. The ground floor of the building is occupied by Vsetin police. Anybody can enter or exit the executive floor without signing up with a receptionist. However visitors must walk through a waiting area with chairs and a couch to enter the Mayor's office.

7.3 Mr. Cunek's relationship with Petr Hurta and Martina Hurtova

According to statements made to the police, Petr Hurta and Martina Hurtova have known Mr. Cunek since the early 1990s.

Mr. Cunek was asked by the police to clarify his relationship with Mr. Hurta. He said that he did not know exactly when they had met, but it was in the 1990s. Vsetin is a small town. They met before Mr. Cunek was in politics. In the same statement, Mr. Cunek states that he has known Hurta since 1992-1994.

According to a statement given by Ms. Hurtova, she first met Mr. Cunek when he was working for Zbrojovka Vsetin. He was recommended to the Hurtas who had just started business and were looking for advice on security/safety issues.

Kroll has identified a number of other links between the Hurta family and the Cunek family. Pavel Hurta, Petr Hurta's cousin, acted as the signatory on behalf of JASY.

Tomas Hurta, possibly related to Hurta, conducted the valuation of the estate of Mr. Cunek's father. The valuation was reduced, reducing the death taxes payable by Mr. Cunek's family. Tomas Hurta appears to be employed by H&B Real.

The Hurtas won several contracts from the Vsetin town. For example, in 1998, Hurta's H&B Optimum won the contract to insure all of the town's property. However, Kroll identified at least one other city contract with H&B which predated Mr. Cunek's election as mayor.

7.4 **Evidence presented to the police to support Ms. Urbanova's account**

Ms. Urbanova is the only witness who saw the alleged bribe take place. There is some circumstantial evidence that supports her case.

On 11 February 2002, Ms. Hurtova withdrew CZK 499,000 from the company bank account with KB. KB's branch in Vsetin is approximately 300m from the town hall.

A friend of Urbanova, Emile Paskova has testified that Ms. Urbanova told her about the half million bribe. The two, who knew each other and became friends while working at the town hall, met several weeks after the alleged bribery took place. Ms. Urbanova told Ms. Paskova that Ms. Hurtova had given Mr. Cunek about CZK 500,000, and about Mr. Cunek's reaction to it – making money. Ms. Urbanova told her that it may have had something to do with H&B Real and Vsetinske Byty. Ms. Paskova herself had acquired a flat from the joint venture.

Jaroslav Rucka, Ms. Urbanova's long term boyfriend, also made a statement to the police in which he reported that Ms. Urbanova had returned from work one day in February 2002 to tell him that Mr. Cunek had shown her an envelope and said that it contained half a million crowns and that that was how to make money. Ms. Urbanova told him that Ms. Hurtova had delivered the money. She also described the phone call to him.

7.5 **Evidence which does not support Ms. Urbanova's account**

It is not at all clear why Ms. Urbanova waited four years to make the allegation of bribery against Mr. Cunek. Her reliability as a witness is also undermined by the fact she had previously made an allegation of sexual harassment against Mr. Cunek that, so far, has not been upheld by the Czech courts.

On the allegation itself, Ms. Urbanova's statements to the police record that the alleged bribe took place in the morning. She estimated there was an interval of approximately one hour between the call and the hand over.

Ms. Urbanova's timing appears to be inconsistent with other events. The withdrawal made by Ms. Hurtova was recorded in the records of Komerčni Bank as taking place at 1425. H&B Real's cash ledger records that the money was deposited with them on the same date. A time is not specified. The computer printout of this cash deposit, in sequence with a years worth of other deposits, is in the police file and has been reviewed by Kroll.

Ms. Hurtova denies visiting the mayor's office on 11 February 2002. She denies giving him a bribe. The police investigation appears to have found no witnesses who could confirm whether Ms. Hurtova visited Mr. Cunek that day. However, it is possible that Ms. Urbanova incorrectly identified the timing or date of the hand over.

7.6

Mr. Cunek's movements on 11 February

Ms. Urbanova told police that Mr. Cunek was in his office until 1500, which provided enough time for Ms. Hurtova to make the delivery.

A phone call was made from Mr. Cunek's office at 1406 to his wife's surgery. Ms. Urbanova states that this call was made by Mr. Cunek. Mr. Cunek said that he did not make the call. Ms. Cunek told the police that Ms. Urbanova often phoned, either to relay information from Mr. Cunek to his wife or because her daughter, Lucie, was a patient at the surgery. Ms. Cunek does not recall a call from her husband that day.

On 11 February 2002, a meeting of the Czech government was held in Zlin. The meeting was attended by a large number of local politicians. Mr. Cunek told the police he went to Zlin on 11 February 2002 and attended some of the meetings.

Mr. Cunek told police that left for Zlin around 1100. He attended a site visit from approximately 1130. He also attended a lunch with the government which took place around 1300. He later attended individual meetings in Zlin before returning for a public meeting with a Government minister at the Dum Kultury in Vsetin from 1800. He remained with the ministers until late into the night.

7.6.1 *Witness – Miroslav Rozhon*

In 2001 Miroslav Rozhon was general manager of Ingstav Ostrava, a building firm.

On 11 February 2002 Mr. Rozhon was due to meet with Mr. Cunek. The meeting was arranged in advance. The meeting took place in Mr. Cunek's office. Mr. Rozhon arrived at 1030, and waited in reception. Another meeting was in progress.

Mr. Rozhon's meeting lasted 10-15 minutes. Nobody entered the office or disturbed the meeting. Afterwards, Rozhon says that he accompanied Mr. Cunek to his car, in the garage.

Mr. Rozhon remembers the meeting because it was unusually rushed. Usually they had time to discuss more general matters, but not on this occasion.

Ms. Urbanova does not discount the possibility that Mr. Cunek left the office around 1100 with Mr. Rozhon, but claims he later returned for another visitor.

7.6.2 Witness – Milan Pucek

Milan Pucek was secretary of Vsetin town council from 2001. Mr. Pucek remembers 11 February 2002 because there was a government meeting in Zlin, which was unusual.

According to Mr. Pucek, there was a meeting of heads of department at Vsetin town hall from 0730. Mr. Cunek arrived before 0800. Following the meeting, at around 0830-0900, Messrs Pucek, Cunek and Kudlik continued talking together in Mr. Cunek's office.

The meeting finished at approximately 1030. Mr. Pucek noticed that someone was waiting for Mr. Cunek as he crossed the room to leave. Mr. Cunek mentioned to Mr. Pucek that he had another meeting before leaving for Zlin.

Mr. Pucek's account has been challenged by Ms. Urbanova who claims that he was not present in the Mayor's office that morning.

Mr. Pucek is currently Deputy Regional Development Minister under Mr. Cunek.

7.6.3 Witness - Jaromir Kudlik

Jaromir Kudlik was Deputy Mayor of Vsetin from 1998.

Mr. Kudlik described to the police that it was usual to have heads of department meetings on Monday mornings. The attendees would move from department to department.

Mr. Kudlik said that on 11 February 2002, Mr. Cunek attended the morning meeting, arriving before 0800. Mr. Kudlik and Mr. Cunek continued discussions in Mr. Cunek's office until Mr. Cunek had to leave for Zlin. He was uncertain of the timing, but recalled that an employee from Ingstav Ostrava had a meeting with Mr. Cunek before he left.

.

Mr. Kudlik knew Martina Hurtova, and did not see her that day at the town hall.

Mr. Kudlik has since been charged with giving false testimony in relation to aspects of his account and is being prosecuted. The police discovered that Mr. Kudlik had attended a conference on 11 February 2002, where he was a key note speaker and this is in the file reviewed by Kroll. A witness, Jan Bierza, confirmed that he spoke in the afternoon at about 1500. The delegates at the conference arrived between 0900 and 1000. The only delegate not to arrive was the Czech Minister for Schools. The other delegates all arrived during this time. The conference took place in Havirov, a small town near Ostrava north east of Vsetin.

Mr. Kudlik was a key witness to Mr. Cunek's movements on the morning of 11 February 2002.

7.6.4 *Witness – Vit Zgarba*

Vit Zgarba testified that he met with Mr. Cunek in Zlin. Mr. Zgarba says in his witness statement that he does not recall exactly what he was doing that day. However, he notes that he did not send any emails between 1155 and 1455.

Mr. Zgarba was scheduled to meet Mr. Cunek in his office but travelled alone to Zlin instead to meet with the mayor. Mr. Zgarba also notes that he met with a sponsor for an upcoming sporting event in Zlin that day.³⁴

Mr. Cunek confirmed that he met with Mr. Zgarba in Zlin after re-arranging the meeting for 1300.

7.6.5 *Witness – Vojtech Jurcik*

A second witness, Vojtech Jurcik, claims in a statement to police that he met Mr. Cunek in Zlin "after 1000," saw him over lunch, and then met him again "around 1500." Jurcik said that the meeting lasted until 1630 or 1700.³⁵

³⁴ Email correspondence from V Zgarba to David Prusa, 27 February 2007, contained in the police file

³⁵ Witness statement of M Sinderbad, contained in police file

SUMMARY

Kroll has addressed three questions:

- Could H&B Real have gained an advantage such as to provide a motive to reward Mr. Cunek?
- Can Mr. Cunek provide convincing explanations as to the legitimate sources of his family's wealth?
- How coherent is the evidence that a bribe took place on 11 February 2002?

This report documents our findings to date.

8.1 **Could H&B Real have gained an advantage such as to provide a motive to reward Mr. Cunek?**

H&B Real entered into a joint venture with the city of Vsetin in 1999 incorporated as Vsetinske Byty s.r.o to buy apartments from the bankrupt Zbrojovka armaments manufacturer and sell them to the public. H&B Real agreed to buy out the city's stake on 23 October 2001. There are indications that H&B Real may have gained unfair advantages at several stages of the relationship.

H&B Real may have gained advantages in the manner of their selection as the city's real estate partner, in the management of that housing stock, and/or in the pricing of the City's stake.

The General Manager of COOP Therm, a utilities company, which also wanted to buy the properties alleges that Vsetin "played a dirty trick on us". They were not invited to attend the city hall meeting which decided that the joint venture should be done with H&B Real, whereas the General Manager of H&B Real did address the meeting.

The independent specialist who valued the city's stake in Vsetinske Byty at CZK 3,618,000 for sale to H&B Real made a number of unusual accounting decisions which undervalued the asset, for example the cash reserve of CZK 11,898,000 does not appear to have been included. Kroll's research also suggests the value of the unsold apartments was significantly undervalued. The first valuation made on behalf of the police valued the asset at CZK 6,700,000 on the basis of the same figures.

The existence of such a large cash reserve also raises questions about the management of the joint venture as most of the money was intended to have been spent on repairs to the properties that were sold.

Some of the explanations given by Mr. Cunek to Kroll in regard to these issues have been inaccurate. On the other hand the success of the enterprise in and of itself provides no evidence that Mr. Cunek was enriched as a result and it should also be noted that the city generated revenue from virtually no city expenditure and secured discounted sales of apartments to residents.

8.2 **Can Mr. Cunek provide convincing explanations as to the legitimate sources of his family's wealth?**

Mr. Cunek gave Kroll full access to his finances and those of his family. We have also received from him explanations of sources of income during the 1990s that mean our estimate of his wealth in 1998 is considerably higher than that previously estimated by the police. We have been able to partially validate his claims.

Mr. Cunek was engaged in a number of special tasks on behalf of his employers during the 1990s that allowed him to accumulate cash from legitimate sources. This means that Kroll finds it plausible, and not suspicious, that he was able to deposit CZK 1,000,000 in his account in 1998.

Kroll learned through interviews that Mr. Cunek's business associations brought him additional income not included in the compensation summary provided to Kroll by the state appointed auditor. These contributed to a cash reserve that allowed him in December 2001 to pay a cash deposit of CZK 400,000 on his house. In August 2002 his wife deposited CZK 200,000 in the family account. In October 2002 a further deposit of CZK 170,000 in cash was made to the account.

A family member has told Kroll he allowed Mr. Cunek to borrow CZK 1,500,000 in seed capital for a planned business. That sum was not fully repaid until 2003. This alone would mean it is entirely possible that he could have had the CZK 497,000 which he deposited in the bank on 14 February 2002.

Kroll has seen Mr. Cunek's accounts, as collected by the police, which show that the CZK 497,000 deposit he made into his account on 14 February 2002, was immediately prior to bank transfers to builders on 15 and 18 February 2002 totalling CZK 441,022.

8.3 **How coherent is the evidence that a bribe took place on 11 February 2002?**

The withdrawal of CZK 499,000 from H&B Real's bank account at 1425 on 11 February 2002 by Ms. Hurtova, wife of the owner of H&B Real, is an important piece of evidence that supports allegations that an act of bribery occurred that day, as alleged by Ms. Urbanova. However Kroll has seen the computer record of that same amount being deposited at H&B Real on the same day, as obtained by the police, and we have no reason to doubt its validity. This is independent evidence that the money taken from the bank by Ms. Hurtova is not the origin of the money deposited by Mr. Cunek three days later.

Ms. Urbanova claimed that Ms. Hurtova gave Mr. Cunek the money in the morning, which is contradicted by the timing of Ms. Hurtova's cash withdrawal.

Kroll also finds that the delay in making the allegation by Ms. Urbanova, and the fact she had previously made an allegation of sexual harrassment against Mr. Cunek, undermines her reliability as a witness and the credibility of her claims.

The witnesses who claim to have been told about the bribe by Ms. Urbanova are her former boyfriend and a close friend, whose intimacy with her also undermines their credibility. Also, there is not one witness aside from Urbanova who saw Hurtova at the city hall on that day.

There are contradictions in the evidence available as to the timing of the whereabouts of Mr. Cunek on that day. However these contradictions do not support the claim that a bribe took place.



KROLL

Kroll
10 Fleet Place
London EC4M 7RB
+44 0 20 7029 5000

Kroll Associates UK Limited. Registered Office 10 Fleet Place,
London EC4M 7RB
Registered in England No. 2020412

