



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

SETTLEMENT AGREEMENT

This settlement agreement (the “Agreement”) is made by and between Zoltek Companies, Inc. (“Zoltek”) and its subsidiaries worldwide (collectively referred to hereafter as “Respondent”), and the U.S. Department of the Treasury’s Office of Foreign Assets Control (OFAC).

I. PARTIES

OFAC administers and enforces economic sanctions against targeted foreign countries, regimes, terrorists, international narcotics traffickers, and proliferators of weapons of mass destruction, among others. OFAC acts under Presidential national emergency authorities, as well as authority granted by specific legislation, to impose controls on transactions and freeze assets under U.S. jurisdiction.

Respondent is a holding company headquartered in Missouri, United States, and the owner of Zoltek Corporation (“Zoltek U.S.”), located in the United States, and Zoltek Vegyipari ZRT (“Zoltek ZRT”), located in Hungary. Zoltek and its wholly owned subsidiaries are engaged in the manufacturing and sale of carbon fiber, a material used in a variety of industrial and commercial capacities.

II. APPARENT VIOLATIONS

On April 28, 2016 and January 6, 2017, Respondent submitted a voluntary self-disclosure to OFAC. OFAC opened an investigation into Respondent’s activities (ENF 45804) and requested additional information and documentation from Respondent. OFAC’s review of Respondent’s submissions identified conduct that appears to have violated the Belarus Sanctions Regulations, 31 C.F.R. part 548 (BSR). Specifically, from on or about January 18, 2012 to on or about October 27, 2015, Zoltek U.S. appears to have violated § 548.201 of the BSR when it dealt in the property or interests in property of J.S.C. Naftan (“Naftan”), a blocked person identified on OFAC’s List of Specially Designated Nationals and Blocked Persons (the “SDN List”), by approving at least 26 transactions between Zoltek ZRT and Naftan (referred to hereafter as the “Apparent Violations”).

III. FACTUAL STATEMENT

Zoltek U.S. is an industrial equipment and services company founded in 1975 and located in Missouri. Zoltek, a holding company also based in Missouri and founded in 1983, is the parent of Zoltek U.S. and Zoltek ZRT, a Hungarian producer of acrylic and other fibers. Zoltek maintains manufacturing operations throughout the United States, Hungary, and Mexico, and is primarily engaged in the manufacturing and sale of carbon fiber, a material used in a variety of industrial and commercial capacities.

Zoltek ZRT purchases a large volume of acrylonitrile (“ACN”), the principal component used to make carbon fiber. Throughout the time period described in this Agreement, Zoltek ZRT generally purchased ACN from one of four third-country suppliers: (i) an entity located in the Netherlands; (ii) an entity located in Switzerland; (iii) an entity located in Russia; and (iv) OJSC Polymir (“Polymir”) located in Belarus. Zoltek ZRT procured ACN directly from these companies in “spot” purchases — one-time purchases for which Zoltek ZRT would collect several bids from several suppliers before making a final decision, or indirectly from these same suppliers through third-party trading companies.

Zoltek’s procurement and approval process as it related to Zoltek ZRT’s acquisition of ACN occurred as follows:

1. First, the Zoltek ZRT Purchasing and Logistics Manager collected offers from potential suppliers by contacting them directly or soliciting bids at auctions or through third-party trading companies;
2. After collecting these offers, the Zoltek ZRT Purchasing and Logistics Manager sent recommendation to the General Manager of Zoltek ZRT;
3. Next, the General Manager of Zoltek ZRT forwarded the recommendation to the Chief Executive Officer (CEO) of Zoltek U.S. for the CEO’s approval. Beginning in or around June 2014, the Executive Vice President for Production and Technology (EVPPT) of Zoltek U.S. assumed the responsibility of approving these orders. Other senior-level managers within Zoltek U.S. were occasionally consulted during this approval process, specifically including the Chief Operating Officer (COO) and the Chief Financial Officer (CFO).

Zoltek U.S. Approves Purchases of ACN Sourced from Naftan: December 2008 – January 2015

On November 13, 2007, OFAC designated the Belarusian State Concern for Oil and Chemistry, also known as Belneftekhim, pursuant to Executive Order 13405 of June 16, 2006, *Blocking Property of Certain Persons Undermining Democratic Processes or Institutions in Belarus* (E.O. 13405). At the time of OFAC’s designation, Naftan was a wholly owned subsidiary of Belneftekhim. Per OFAC’s “50 Percent Rule,” all entities owned 50 percent or more by persons whose property and interests in property are blocked are themselves considered to be blocked persons. Therefore, because Belneftekhim owned 50 percent or greater of Naftan at the time of its designation, Naftan itself became an OFAC-blocked person on November 13, 2007 pursuant to § 548.411. On December 1, 2008, Naftan (which, as noted above, was a blocked person at this time) acquired Polymir — one of Zoltek ZRT’s primary suppliers of ACN.¹

On August 11, 2011, OFAC designated Naftan pursuant to E.O. 13405 and added it to the SDN List. On or about August 11, 2011, the Zoltek ZRT Purchasing and Logistics Manager saw OFAC’s press release regarding Naftan’s designation. The Zoltek ZRT Purchasing and Logistics

¹ Zoltek ZRT purchased ACN from Polymir starting no later than November 14, 2007 and continuing through the time period in which the Apparent Violations described in this Agreement occurred.

Manager emailed another Zoltek ZRT employee a link to the press release and wrote, “[t]he link below shows new USA sanctions against Belarus companies, which Naftan also currently is.” On August 16, 2011, the Zoltek ZRT employee who received the above-referenced email forwarded it to the COO of Zoltek U.S. and stated the following:

This is a new information. US introduced sanction against Belarus companies like NAFTA. This is the owner of Polymir. I don't know is it a problem for us. If yes maybe we can contract with another supplier not Naftan if the ACN price will be accepted. Let us see their price offer today.

The Zoltek ZRT General Manager consulted with Zoltek ZRT's Hungarian external counsel, who concluded that U.S. law did not apply in Hungary. Zoltek U.S., despite being informed of OFAC's designation of Naftan, continued to review and approve transactions that dealt in the property or interests in property of Naftan.

Senior Zoltek U.S. Personnel Engage in Conversations Regarding U.S. Sanctions Against, but Continue Approving Zoltek ZRT Purchases of ACN from, Naftan: February 2015 – October 2015

Beginning no later than early February 2015, multiple senior managers in Zoltek U.S. received information concerning, and subsequently discussed, the sanctions imposed by the United States against Naftan (and by extension also Polymir). These senior managers included: (i) the CEO, COO, and President of Zoltek U.S.; (ii) the CFO of Zoltek U.S.; (iii) the EVPPT of Zoltek U.S.; and (iv) the Director of Global Operations of Zoltek U.S.

In early February 2015, the CEO, COO, and President of Zoltek U.S. exchanged a series of emails with an employee of a foreign company that was considering investing in Zoltek. In a February 2, 2015 email, the employee from the foreign company explained the following to the CEO, COO, and President of Zoltek U.S. with regard to Zoltek's dealings with Polymir:

Polymir is 100% a subsidiary of NAFTA which is included in the SDN List (Specially Designated Nations and blocked persons) [*sic*], and I believe extensive prior checking from the perspectives of U.S. enterprise involvement, account settlement in US dollars, and so on and so forth will become necessary. (The guess is that, by general principle, it will be infinitely close to impossible).

The CEO, COO, and President of Zoltek U.S. responded to the email by thanking the employee from the foreign company and indicated that Zoltek U.S. was “checking in with the U.S. government [and] Hungarian government” with regard to the information concerning Polymir. Zoltek ZRT once again appears to have consulted with external counsel in Hungary about the applicability of U.S. economic sanctions laws to its actions. Zoltek U.S. appears to have allowed Zoltek ZRT's discussions with local Hungarian counsel to guide Zoltek U.S.'s decision to continue participating in transactions with the SDN.

Separately but concurrently, multiple Zoltek U.S. and Zoltek ZRT managers engaged in, or were copied on, a discussion regarding the purchase of ACN from Polymir and/or Naftan. These

managers — all of whom were copied on the email conversations described below — included the EVPPT of Zoltek U.S. (who at this time was responsible for approving all Zoltek ZRT purchases), the CFO of Zoltek U.S. (who routinely reviewed and/or provide consultation during the EVPPT of Zoltek U.S.’s approval process), and the Director of Global Operations at Zoltek U.S., as well as the Purchasing and Logistics Manager of Zoltek ZRT and the General Manager of Zoltek ZRT.

Specifically, on February 2, 2015, the CFO of Zoltek U.S. sent an email to (or copying) the individuals referenced above and instructed Zoltek ZRT to confirm that there were no restrictions imposed by the Hungarian government in conducting business with Polymir or Naftan. The CFO of Zoltek U.S. further noted, “We want to ensure we do not brake any government rules [*sic*]. Also, please note that our contract, if one is done, cannot be with Naftan. It will need to be with Polymir.”

On February 3, 2015, the Purchasing and Logistics Manager of Zoltek ZRT responded to the CFO’s email and clarified that Polymir was a subsidiary of Naftan, a U.S.-sanctioned party:

Polymir is not a legal entity any more. It is part of Naftan since 2009, that’s why we need to sign the contract with Naftan. We are checking with authorities if there are any restrictions doing business with Naftan. There are sanctions in the USA against Belarus and Naftan. I think it is not valid for Hungarian companies.

The CFO of Zoltek U.S. responded to the Purchasing and Logistics Manager of Zoltek ZRT and denied any request to sign an agreement with Naftan. The CFO of Zoltek U.S. does not appear to have commented on the information that Naftan was subject to U.S. economic sanctions, however, and instead inquired whether it would “be possible to do a deal through a third-party trading company?” Several days later, the Purchasing and Logistics Manager of Zoltek ZRT noted that the company had started negotiations to receive deliveries from Naftan through a third-party trading company (the “Trading Company”). In a February 13, 2015 email, the EVPPT of Zoltek U.S. disapproved of the transaction due to concerns that the Trading Company was a shell company, though all of Zoltek’s disclosed transactions that occurred on or after June 19, 2015 appear to have been conducted with the Trading Company.

On February 27, 2015, the General Manager for Procurement at Zoltek’s parent company — a corporate entity organized under the laws of Japan that acquired Zoltek in February 2014 — received an email from an employee at a non-U.S. company regarding that company’s potential transportation of ACN from Naftan in Belarus to Zoltek ZRT in Hungary. In the email, the employee of the non-U.S. company provided the General Manager for Procurement at Zoltek’s parent company with information regarding Naftan’s designation by OFAC and indicated it would be difficult for the non-U.S. company to engage in the transaction.

POLIMIR’s parent company NAFTAN (Oil Refinery) was listed on the Specially Designated Nations List (SDN List) as [an entity] restricted by US OFAC (asset freezing, prohibition on transactions). I would like to quickly notify you that after confirming with our Planning Operations Division, it has been confirmed within our company that basically our company, which engages in corporate activities in

the US, is basically prohibited from engaging in business with Polimir to which SDN applies [*sic*].

The General Manager for Procurement at Zoltek's parent company forwarded this email, as well as information regarding OFAC's designation of Naftan, to the CEO, COO, and President of Zoltek U.S., and copied multiple personnel at Zoltek's parent company and the EVPPT of Zoltek U.S. The CEO, COO, and President of Zoltek U.S. responded that same day by stating: "Our company has already obtained the same information over a month ago, and a final confirmation is being made with the U.S. government and the Hungarian government, so please don't worry." However, neither Zoltek U.S. nor Zoltek's parent company appears to have sought any guidance or counsel at this time regarding its obligations to comply with U.S. economic sanctions programs — particularly with respect to dealings with Naftan.

From February 25, 2015 through October 27, 2015, Zoltek U.S. subsequently approved 13 spot purchases by Zoltek ZRT related to the purchase of 8,582.7 tons of Naftan-produced ACN from third-party trading companies — including the Trading Company — totaling \$10,390,920.

IV. TERMS OF SETTLEMENT

OFAC and Respondent agree as follows:

1. In consideration of the undertakings of Respondent in paragraph 2 below, OFAC agrees to release and forever discharge Respondent, without any finding of fault, from any and all civil liability in connection with the Apparent Violations arising under the legal authorities that OFAC administers.
2. In consideration of the undertakings of OFAC in paragraph 1 above, Respondent agrees and represents:
 - A. Within fifteen (15) days of the date Respondent receives the unsigned copy of this Agreement, to:
 - (i) sign, date, and mail an original sign copy of this Agreement to: [REDACTED], Office of Foreign Assets Control, U.S. Department of the Treasury, 1500 Pennsylvania Avenue, NW, Washington, DC 20220. Respondent should retain a copy of the signed Agreement and a receipt or other evidence that shows the date that Respondent mailed the signed Agreement to OFAC; and
 - (ii) pay or arrange for the payment to the U.S. Department of the Treasury the amount of **\$7,772,102**. Respondent's payment must be made either by electronic funds transfer in accordance with the enclosed "Electronic Funds Transfer (EFT) Instructions," or by cashier's or certified check or money order payable to the "U.S. Treasury" and referencing **ENF 45804**. Unless otherwise arranged with the U.S. Department of the Treasury's Bureau of the Fiscal Service, Respondent must either: (1) indicate

payment by electronic funds transfer, by checking the box on the signature page of this Agreement; or (2) enclose with this Agreement the payment by cashier's or certified check or money order.

- B. To waive (i) any claim by or on behalf of Respondent, whether asserted or unasserted, against OFAC, the U.S. Department of the Treasury, and/or its officials and employees arising out of the facts giving rise to the enforcement matter that resulted in this Agreement, including but not limited to OFAC's investigation of the Apparent Violations, and (ii) any possible legal objection to this Agreement at any future date.
- C. **Compliance Commitments:** Respondent has terminated the conduct described above and has established, and agrees to maintain, sanctions compliance measures that are designed to minimize the risk of recurrence of similar conduct in the future. Specifically, OFAC and Respondent understand that the following compliance commitments have been made:
- a. **Management Commitment:**
- i. Respondent commits to ensuring that its Senior Management, including the organization's Chief Executive Officer and General Counsel, are committed to supporting Respondent's OFAC compliance program.
 - ii. Respondent commits to ensuring that its compliance unit(s) are delegated sufficient authority and autonomy to deploy its policies and procedures in a manner that effectively controls Respondent's OFAC risk.
 - iii. Respondent commits that Senior Management has reviewed and approved the Respondent's sanctions compliance program.
 - iv. Respondent commits to ensuring that its compliance unit(s) receive adequate resources, including in the form of human capital, information technology, and other resources, as appropriate.
 - v. Respondent commits to ensuring that Senior Management promotes a "culture of compliance" throughout the organization and empowers its sanctions compliance program and personnel.
 - vi. Respondent's Senior Management demonstrates recognition of the seriousness of apparent violations of the laws and regulations administered by OFAC, and acknowledges its understanding of the apparent violations at issue, and commits to implementing necessary measures to reduce the risk of reoccurrence of similar conduct and apparent violations from occurring in the future. Specifically,

expanding the role of the Director of Global Compliance, which initially focused only on export/import controls, to include U.S. sanctions issues.

b. Risk Assessment:

- i. Respondent conducts an OFAC risk assessment in a manner, and with a frequency, that adequately accounts for potential risks. Such risks could be posed by its clients and customers, products, services, supply chain, intermediaries, counter-parties, transactions, and geographic locations, depending on the nature of the organization. The risk assessment will be updated to account for the root causes of any apparent violations or systemic deficiencies identified by Respondent during the routine course of business.
- ii. Respondent has developed a methodology to identify, analyze, and address the particular risks it identifies. The risk assessments will be updated to account for the conduct and root causes of any apparent violations or systemic deficiencies identified by Respondent during the routine course of business.

c. Internal Controls:

- i. The Respondent has designed and implemented written policies and procedures outlining its sanctions compliance program. These policies and procedures are relevant to the organization, capture the Respondent's day-to-day operations and procedures, are easy to follow, and prohibit employees from engaging in misconduct.
- ii. Respondent commits to ensuring that it maintains clear and effective internal controls pertaining to its ability to identify, interdict, escalate, and report (as appropriate) transactions and activity prohibited by OFAC regulations.
- iii. Respondent commits to enforcing the policies and procedures it implements as part of its OFAC compliance internal controls.
- iv. Respondent commits to ensuring that its OFAC-related recordkeeping policies and procedures adequately account for its requirements pursuant to the sanctions programs administered by OFAC.
- v. Respondent commits to ensuring that, upon learning of a weakness in its internal controls pertaining to OFAC compliance, it will take immediate and effective action, to the extent possible, to identify and implement compensating controls until the root cause of the weakness can be determined and remediated.

- vi. The Respondent has clearly communicated the sanctions compliance program's policies and procedures to all relevant staff, including personnel within the sanctions compliance function, as well as relevant gatekeepers and business units operating in high-risk areas (e.g., customer acquisition, payments, sales, etc.).
- vii. The Respondent has appointed personnel to integrate the sanction compliance program's policies and procedures into the Respondent's daily operations. This process includes consultations with relevant business units, and confirms that Respondent's employees understand the policies and procedures.
- viii. Specifically with respect to the conduct outlined above, Respondent agrees that it has implemented the use of software to screen its vendors, and their parent and subsidiary companies, against government restricted lists on a daily basis.

d. Testing and Audit:

- i. The Respondent commits to ensuring that the testing or audit function is accountable to the board, is independent of the audited activities and functions, and has sufficient standing, skills, resources, and authority within the organization.
- ii. Respondent commits to ensuring that it employs testing and audit procedures appropriate to the level and sophistication of its OFAC compliance program and that this function, whether deployed internally or by an external party, reflects a comprehensive and objective assessment of Respondent's OFAC-related risks and internal controls.
- iii. Respondent commits to updating its risk assessment and reviewing its sanctions policies, procedures, and practices on a periodic basis in order to identify and correct any weaknesses or deficiencies.
- iv. Respondent commits to ensuring that, upon learning of a confirmed negative testing or audit result pertaining to its OFAC compliance program, it will take immediate and effective action to identify and implement compensating controls until the root cause of the weakness can be determined and remediated.

e. Training:

- i. Respondent commits to ensuring that its OFAC-related training program provides adequate information and instruction to employees

and stakeholders (for example, clients, suppliers, business partners, and counterparties) in order to support Respondent's OFAC compliance efforts.

- ii. Respondent commits to providing OFAC-related training with a scope that is appropriate for the products and services it offers, clients and partner relationships it maintains, and the geographic regions in which it operates.
- iii. Respondent commits to providing OFAC-related training with a frequency that is appropriate based on its OFAC risk assessment and risk profile and, at a minimum, at least once a year to all relevant employees.
- iv. Respondent commits to ensuring that, upon learning of a confirmed negative testing, audit result, or deficiency pertaining to its OFAC compliance programs, it will take immediate and effective action to provide training to relevant personnel.
- v. The Respondent's training program includes easily accessible resources and materials that are available to all relevant personnel.
- vi. Specifically with respect to the conduct outlined above, Respondent agrees that it has created the "Zoltek Learning Academy" to train all new and current Zoltek employees on U.S. economic sanctions and the adherence to U.S. export controls.

f. Annual Certification:

- i. On an annual basis, for a period of five years, starting from 180 days after the date the Agreement is executed, a senior-level executive or manager of Respondent will submit a certification confirming that Respondent has implemented and continued to maintain the sanctions compliance measures as committed above.

D. Should OFAC determine, in the reasonable exercise of its discretion, that Respondent appears to have materially breached its obligations or made any material misrepresentations under Subparagraph C (Compliance Commitments) above, OFAC shall provide written notice to Respondent of the alleged breach or misrepresentations and provide Respondent with 30 days from the date of Respondent's receipt of such notice, or longer as determined by OFAC, to determine that no material breach or misrepresentations has occurred or that any breach or misrepresentation has been cured.

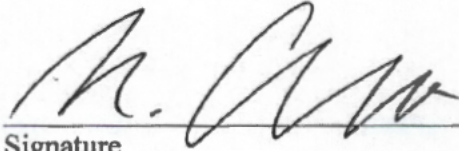
E. In the event OFAC determines that a material breach of, or misrepresentation in, this Agreement has occurred due to a failure to perform the Compliance Commitments,

OFAC will provide notice to Respondent of its determination and whether OFAC is re-opening its investigation. The statute of limitations applying to the Apparent Violations shall be deemed tolled until a date 180 days following Respondent's receipt of notice of OFAC's determination that a breach of, or misrepresentation in, this Agreement has occurred.

- F. Should the Respondent engage in any other violations of the sanctions laws and regulations administered by OFAC — including those that are either apparent or alleged — OFAC may consider Respondent's sanctions history, or its failure to employ an adequate sanctions compliance program or appropriate remedial measures, associated with this Agreement as a potential aggravating factor consistent with the Economic Sanctions Enforcement Guidelines, 31 C.F.R. part 501, Appendix A.
3. This Agreement shall not in any way be construed as an admission by Respondent that Respondent engaged in the Apparent Violations.
 4. This Agreement has no bearing on any past, present, or future OFAC actions, including the imposition of civil penalties, with respect to any activities by Respondent other than those set forth in the Apparent Violations.
 5. OFAC may, in its sole discretion, post on OFAC's website this entire Agreement and/or issue a public statement about the facts of this Agreement, including the identity of any entity involved, the settlement amount, and a brief description of the Apparent Violations.
 6. This Agreement consists of eleven pages, and expresses the complete understanding of OFAC and Respondent regarding resolution of OFAC's enforcement matter involving the Apparent Violations. No other agreements, oral or written, exist between OFAC and Respondent regarding resolution of this matter.
 7. This Agreement shall inure to the benefit of and be binding on each party, as well as its respective successors or assigns.

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Respondent accepts the terms of this Settlement Agreement this 7th day of December 2018.



Signature

NOBUYA ANDO
Respondent's Printed Name (or in the case of an entity, the name of Respondent's Duly Authorized Representative)

Chief Executive Officer
Chief Operating Officer and
President, Zoltek Companies, Inc.
Printed Title of Respondent's Duly Authorized Representative and Name of Entity (if applicable)

Please check this box if you have not enclosed payment with this Agreement and will instead be paying or have paid by electronic funds transfer (see paragraph 2(A)(ii) and the Electronic Funds Transfer Instructions enclosed with this Agreement).

Date: Dec. 10, 2018



Andrea M. Gacki
Director
Office of Foreign Assets Control