The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Rostelecom Is Forever in Debt to the Kremlin

November 27, 2012



In the latest battles between elite clans of President Vladimir Putin's regime, investigators searched the home of Rostelecom president Alexander Provotorov. They also searched the home of Konstantin Malofeyev, a prominent investor and head of Marshall Capital, which owns a 10 percent stake in Rostelecom. The pretext for the raids was missing loan money from VTB Capital.

In 2007, Malofeyev decided to sell a bunch of dairies that he valued at $225 million. VTB Capital loaned that sum to the buyer, then later learned it was only a shell company owned by Malofeyev. The money disappeared, and the real value of the dairies turned out to be just $35 million.

VTB sued for damages in a London court. During those proceedings, we learned that 15 percent of the loan money issued by VTB Capital had been returned to a company under its own control.

Normally, such a scandal would discredit the investor if not land him in jail. But not

Malofeyev.

Since 2007, when Malofeyev bought six dairies from himself after he received a large loan and never repaid it, he has become a powerful player in the communications sector. Malofeyev has become a godfather to the children of then-Communications Minister Igor Shchyogolev and the owner of a 10 percent stake in Rostelecom. Two years ago, former Svyazinvest CEO Yevgeny Yurchenko told Vedomosti exactly how that took place.

The ingenious scheme was far more complex than when Malofeyev simply sold himself a few dairies. The first important fact is that Rostelecom was a subsidiary of Svyazinvest in 2009, but now their roles are reversed. Back then, other regional communications companies were also subsidiaries of Svyazinvest. In May 2009, when Shchyogolev was communications minister, it was decided that those Svyazinvest subsidiaries would be transferred to Rostelecom. That transaction was finalized in October 2009.

According to Yurchenko, Rostelecom transferred $300 million to Gazprombank in May 2009. That money was de facto used to start buying up shares and to provide collateral on the bank loan to Marshall Capital, which bought shares in subsidiaries. Then, when the purchasing began, the share price began to rise. At that point, Marshall Capital used its newly purchased shares as collateral against another loan with large margins. The resulting cycle of purchases and loans is a mechanism by which many players in the Russian market have generated billions of dollars in income. It is believed that billionaire Suleiman Kerimov's purchase of stakes in Sberbank and Gazprom followed a similar scheme.

But the mechanism has a catch. What happens if the price of the stock falls or the value of the subsidiaries after they are restructured is not advantageous for shareholders? In that case, a margin call would occur, the pyramid scheme would collapse and the speculators would lose everything.

But Malofeyev controlled all the players, from Shchyogolev and the Rostelecom financial director (the former Marshall Capital financial director) and the future director of Rostelecom (a Marshall Capital co-founder). That means there was no risk whatsoever.

Thus, under Shchyogolev, the communications sector was restructured so that Rostelecom, formerly a subsidiary of Svyazinvest, became the parent company and Svyazinvest the subsidiary. At the same time, Malofeyev gained a 10 percent stake in Rostelecom, and according to Yurchenko, the money to purchase those shares was provided by Rostelecom.

In the U.S., such a scheme would have landed all the participants — including ministers and other government officials — in prison.

Yulia Latynina hosts a political talk show on Ekho Moskvy radio.

Related articles:

- Rostelecom President's House Searched
- Rostelecom Could Issue New Debt

- Dead People Used to Steal Rostelecom Apartments

The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

Original url:
https://www.themoscowtimes.com/2012/11/27/rostelecom-is-forever-in-debt-to-the-kremlin-a19708