Sochi 2014: Encyclopedia of spending

The Cost of Olympics Report by
The Anti-Corruption Foundation
Contents

3 Foreword
4 Summary
5 Report Goals and Objectives
6 How Did the Preparations for the Olympics Go

7 Cost of the Olympics
   Direct Budget Costs
   Expenses of State-Owned Companies
   Vnesheconombank Loans
   Private Investments
   Unbecoming Luxury

14 Olympic Spending Pattern and Selection of Contractors
   Cost Items and Responsible Agents
   Lack of Transparency in Awarding Contracts
   Personal Ties between Contractors and Officials
   Expenditure on Non-Olympic Venues

20 Peculiarities of Spending
   Excessive Construction Costs
   Offshore-Based Contractors
   Bad Debts of Vnesheconombank

Addendum

26 Personalia
29 Companies
32 Olympic Sites

Sports

Adler-Arena Skating Centre
Bolshoy Ice Dome
Fisht Olympic Stadium
Formula One Track
Iceberg Skating Palace
Ice Cube Curling Centre
Laura Biathlon & Ski Complex
Mountain Carousel Complex
Rosa Khutor Alpine Centre
Sanki Sliding Centre
Shayba Arena

Infrastructure

Adler-Krasnaya Polyana Road
Adler CHP plant
Airport
Azimut Hotel
International Olympic University
Imereti Port
Media Centre
Olympic Village
Olimpstroy State Corporation
Organizing Committee and Olimpstroy Office Centre
Relief road for the Sochi Kurortny Avenue
Road to the Potemkin Science Centre, Lunnaya Polyana
Sochi-park theme park
Sochi, the Presidential Resort
Foreword

The Olympic Games are an outstanding sporting event but every event comes at a price.

The 2014 Olympics in Sochi have been paid by the citizens of the Russian Federation, so we believe that they should have a possibility to see a true picture of how this event was financed and organized.

The Government’s attempts to conceal the Olympic costs and intentional misinformation on this topic were the main reasons why the Anti-Corruption Foundation decided to make the report.

This is a sober-minded and dispassionate factual analysis concerning the preparation of the Sochi Games.

It has been a laborious research conducted with meticulous attention to detail and all the information was taken from public sources and can be freely verified by anyone interested. We deliberately left out references to anonymous or non-verifiable sources.

How much did the 2014 Games in Sochi cost for real? Is it too much or too little at the current stage of Russia’s development? Is it true that the contractors overcharged for construction of Olympic venues? Were the contracts awarded fairly and transparently?

You will find answers to all these questions in this report.

These Games have become a real project of the twenty-first century for Russia and we think that the whole nation has the right to be informed on what the Sochi Olympics really are.

I would like to thank and acknowledge all employees of the Anti-Corruption Foundation and numerous volunteers who made this project possible for the benefit of everyone in Russia.

Alexey Navalny,
Founder of the Anti-Corruption Foundation
Summary

Using publicly available sources of information, the Anti-Corruption Foundation has analyzed the preparation for the Olympic Games and defined the main participants of this process, financing structures and costs borne. Below are the key results of our work:

- The total amount spent for the Olympics preparation comes up to $45.8 bn
- The per capita cost of the Sochi Olympics is 3-5 times as high as the cost of the Games in countries with strong economies and high personal income.
- Less than 4% of Olympic costs were borne by private investors. The rest was paid from the budget, by state-owned companies and through Vnesheconombank loans.
- The selection process for builders and contractors was non-transparent which most probably led to law violations and corruption during construction.
- The initial cost of some contracts was 2-14 times lower than the final cost, which simplified budget approval and contract award.
- For 6 sport venues, the cost per seat is 1.6-2.6 times higher in comparison with similar venues. Analyzed infrastructure facilities are 1.3-1.9 times overpriced.
- The companies which were awarded contracts worth at least $14.2 bn are closely linked to the state officials including Vladimir Putin.
- 28% of the total contract amount was spent by offshore-owned contractors.
- The state-owned Vnesheconombank provided $7.6 bn in loans for Olympic venues and already classifies 76% of this money as a bad debt. The debtors refuse to service their loan while the government is preparing to compensate losses through the state budget.
- Several non-Olympic sites were built using Olympic money: a cathedral, a health resort for the Department of Presidential Affairs and a road to the Lunnaya Polyana VIP health resort.

The identified issues altogether imply that there is a notable risk of fraud and corruption. We estimate that there is a high probability of a significant share of those $45.8 bn was embezzled instead of being spent for the Olympics. The report below covers information on the problems of the Olympics construction projects.
Report Goals and Objectives

We have analyzed the construction of sport venues and infrastructure facilities in the city of Sochi during the preparation for the Olympics, its financing and the costs borne.

While preparing this report, we have set the following objectives for our research:

- Collect and systemize available information on venues directly or indirectly linked to the Olympics;
- Analyse each notable venue in terms of fraud and corruption risks;
- Summarise our observations and formulate the most significant problems identified throughout the analysis.

The Anti-Corruption Foundation fights corruption in Russia, which is why we concentrated on corruption risks as well as on types and extent of law violations during the Games preparation. The Anti-Corruption Foundation is a non-governmental organisation, we do not possess any formal authority to make official inquests into corruption cases or request access to relevant documents. Therefore we analyzed and compared data accessible through public sources only. The limitation of such approach didn’t allow us to cover the entirety of venues and building sites that appear to bear signs of corruption and embezzlement.

In the current report we examined the major Olympic venues. Most venues which were not examined are minor infrastructure facilities coordinated by Olympstroy [page 74].
How Did the Preparations for the Olympics Go

The city of Sochi was officially awarded the right to host the 2014 Winter Olympic Games on July 4, 2007. The International Olympic Committee (IOC) took the vote during the regular session in Guatemala City. Before the final vote, the Russian president Vladimir Putin personally gave a speech during the Sochi presentation.

However, the history of big construction sites and urban image changes had started long before Sochi secured the right to host the Olympic Games and even before summer 2005 when the Sochi 2014 Bid Committee was established.

It all started when Putin visited Sochi for the first time as the President of Russia in 2000, A summer residence for the highest-ranking officials was established in Sochi back in Soviet times. However, the first changes took place in a small town of Krasnaya Polyana, a short trip away from the city in the mountains. This town and its surroundings were the sites Putin visited in 2000, right after his election. After this visit, the city and its vicinity started to change.

During the next years, renovation or construction of several mountain resorts around Krasnaya Polyana started, financed by well-known businessmen and OAO Gazprom, the largest Russian company by that time.

It is reasonable to assume that this significant state support in promoting Sochi as a host city of the Olympics was driven by a personal interest of the Russian President in developing this particular region. Vladimir Putin likes spending his holidays in Sochi, and several new government residences already appeared here in addition to the existing one. We should note that the choice of the subtropical Sochi to host the Olympics led to additional challenges and costs during the project implementation.

Approval of the Government Decree no. 357 “Federal Special-Purpose Program for Development of Sochi as a Mountain Climate Resort (2006-2014)” on June 8, 2006 was the next important event in the Olympic history of Sochi. This decree officially expressed that the government wished to develop Sochi and to prepare the city for the Olympics. The decree described possible ways of development if Sochi wins the right to host the Olympic Games or fails to do so. For each of these options, different volumes of financial support were allocated. $9.6 bn were planned to be spent if the Olympic bid succeeded. After Sochi was awarded the right to host the Olympics, a new decree no. 991 has been approved on December 27, 2007, considering the detailed IOC requirements but lacking any specification of financial support.

In late 2007, the Organizing Committee of the XXII Olympic Winter Games and XI Paralympic Winter Games of 2014 in Sochi and the Olympstroy state corporation were established. The government also appointed other organizations, state agencies and companies responsible for the organization of the Olympic Games. This was the beginning of the largest sport and infrastructural project of the post-Soviet Russia – the largest by scale and by costs.

1 RUB to USD exchange rate used here and below – 32.73
Cost of the Olympics

According to the estimates of the Anti-Corruption Foundation, $45.8bn were spent on the preparations for the Olympic Games in total. This amount is seven times higher than $6.5bn announced by Vladimir Putin. We considered not only the sport venue construction costs but also the cost of developing Sochi’s infrastructure.

Direct Budget Costs, $26.1bn (57%)

The Anti-Corruption Foundation has analyzed Federal Laws on the Federal Budget for 2008-2014 and Federal Laws on the Budget Performance for 2008-2012. We have found all articles of the federal budget related to the organization and support of the Olympic Games in Sochi.

Two state-owned companies, Olympstroy and Russian Railways (RZD), received over a half of this money via equity capital payments. Olympstroy spent $6.3bn to construct 11 sport venues; most of them were built at unreasonably high prices.

More than a half of the government spending on the Olympic Games took the form of equity capital payments to state-owned firms

Sources: RF Government Decree #991, Federal Laws on Budget, Annual reports of Olympstroy and other entities, ACF analysis
Russian Railways received even more than Olympstroy from the state budget: $7.6 bn were allocated for some 20 infrastructure projects. For example, the state monopoly took part in constructing the most expensive Olympic facility – the Adler-Krasnaya Polyana car and rail link [page 54]. This facility cost $8.7 bn and helped Vladimir Yakunin [page 28], Arkady Rotenberg [page 27] and Gennadiy Timchenko [page 27], Putin's friends, to get hold of the money.

From 2008 to 2014, the government spent $581 mn to ensure safety during the Olympics, fourfold the amount spent on grants for Olympic athletes. On top of that, $568 mn were given out to upgrade health resorts belonging to the Department of Presidential Affairs.

Another large expenditure item is a $2.6 bn federal subsidy to the Krasnodar region. Besides that, the region also spent $1 bn from own funds, mostly to pay the equity of OAO Zentr Omega [page 31], a 100% Krasnodar region-owned company.
Expenses of State-Owned Companies, $10.5 bn (22.9%)

By state-owned companies we mean the companies in which a controlling stake belongs to the Russian government. The total expenditure amount has been calculated based on the annual reports and investment programs published by them. We took the total amount of expenses for the preparation of the Olympics and subtracted government subsidies or share capital payments. $10.5 bn is the total amount of expenses covered by state-owned companies’ own funds.

Gazprom was a clear leader among the state firms’ Olympic expenditure

<table>
<thead>
<tr>
<th>Company</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Gazprom</td>
<td>$4 514 mn</td>
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<tr>
<td>Sberbank</td>
<td>$833 mn</td>
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<tr>
<td>Russian Railways</td>
<td>$2 404 mn</td>
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<tr>
<td>Olympstroy</td>
<td>$879 mn</td>
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<td>FGC UES</td>
<td>$402 mn</td>
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<td>Inter RAO</td>
<td>$611 mn</td>
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<tr>
<td>Other</td>
<td>$823 mn</td>
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</tbody>
</table>

The officials misclassified these expenses as privite. This could be true only if private shareholders voluntarily agreed to take part in the preparations for the Olympics. However, these entities became investors on direct order of the officials, that’s why private minority shareholders of state-owned companies can be seen as forced private co-investors of the Olympic Games.

Proprietary funds of the state companies are accumulated from their business revenue – for example, selling gas to households or railway tickets to passengers. The tariffs are formed in such a way that there is already an ‘investment component’ factored into the final price of goods. These proceeds are diverted into the investment programmes of state companies. Therefore, it is possible to say that all Russian consumers of gas and electricity or railway passengers have unknowingly become co-investors of the Olympic Games.

Sources: RF Government Decree #991, Federal Laws on Budget, Annual reports of Olympstroy and other entities, ACF analyses.
Vnesheconombank Loans, $7.6 bn (16.6%)

The total amount has been calculated using data published by Vnesheconombank (VEB) [page 29]. All major private investors - billionaires Vladimir Potanin, Oleg Deripaska and Viktor Vekselberg - have received substantial financial support from Vnesheconombank, reaching up to 90% of the whole project cost. Commercial banks usually do not finance over 80% of the project.

In fall 2013, it has been reported that nine out of 20 Vnesheconombank loans worth ($5.8 bn of total $7.6 bn) need to be restructured. According to the Vedomosti business daily, these projects are unprofitable with loans being unrecoverable without additional support. Vladimir Potanin, one of the recipients of state loans, also admitted this in an interview.

Read more on how this financing worked under Bad Debts of Vnesheconombank [page 24].

VEB has already labeled 79% of all lending for Olympic construction as either problem loans or outright bad debt

![Pie chart showing the distribution of Vnesheconombank loans](chart.png)

**Sources:** Annual reports of VEB and other entities, VEB Programme for the Issuance of Loan Participation Notes, ACF analysis
Private Investments, $1.6 bn (3.5%)

Officials say that 60% of all Olympic preparation costs were covered by private investments. Alexey Zhukov, head of the Russian Olympic Committee, told the press in July 2013: “private investments amount to 60% of the total budget for venue construction, transport development and engineering infrastructure.” The research conducted by the Anti-Corruption Foundation proves this statement wrong.

Genuinely private investments account for less than 4% of all Olympic costs. There are two types of investors:

- Major holdings (e.g. Basic Element, Interros, Renova etc.) They received loans from Vnesheconombank, so their own expenses are calculated as the difference between the venue cost and the loan amount. On average, own expenses do not exceed 15% of the total cost.

- Companies listed in the Government Decree no. 991 as agents responsible for construction or renovation of hotels and resorts. There is little data available on these facilities and financing methods, which can be examined in a separate investigation.

Private investments are less than 4% of total olympic costs

Sources: RF Government Decree #991, Annual reports of VEB and other entities, ACF analysis
Unbecoming Luxury

The Sochi Olympics cost five times more than the Vancouver Games and ten times the price of those in Salt Lake City and Turin. This is a conservative estimate considering both for sport venues and infrastructure facilities.

In terms of the cost per capita, the Sochi Olympics trail only the Athens Games

![Graph showing cost per capita and % of GDP for various Olympic Games]

Sources: World Bank (GDP and population information), open sources (cost of Olympics)

We have compared the expenses for the Sochi Olympics with all other Games of the last decade, only to find out that the costs per capita in Russia are much higher than anywhere else except Greece, where Olympics-related investments were higher calculated per capita or as a share of GDP in pre-Olympic year. According to Businessweek, USA TODAY and other media, one of the triggers of the debt crisis which struck Greece in 2010 was the overwhelming Olympic expenditure.

Another parameter which makes Sochi Games stand out against other Olympics of the last decade is the cost per set of medals, which is 4.36 times higher than for the Beijing Games which were the most expensive before Sochi.
Much of the Sochi Olympic expenses went towards infrastructure (roads, utilities, power lines). These expenses amount to $45,000 per Sochi resident. Allegedly these investments have a long-term effect and will contribute to the economic development of Sochi and Krasnodar region. According to The Anti-Corruption Foundation analysis, 40% of all infrastructure expenditure is the cost of the Adler-Krasnaya Polyana car and rail road, which has a questionable significance and post-Olympic use (read more on this here [page 54]). Therefore a substantial part of infrastructure investments are not economically viable.

It appears that there is an inherent contradiction in the Sochi Olympic project. Russia spent 5-10 times more on the Olympics than any other country, while having a weaker economy than most of these countries. Most importantly, the money Russia so generously spent were coming from the state budget and pockets of the Russian citizens.
Olympic Spending Pattern and Selection of Contractors

Cost Items and Responsible Agents

The Anti-Corruption Foundation examined the money flows for the Olympics based on following categories:

- Expense Area: type of venues built using the allocated funds:
  - sport venues directly related to the Olympics
  - transport, energy supply and other infrastructure
  - hotels and administrative buildings
  - miscellaneous venues outside of these categories, such as the Formula One race Track [page 38].

- Organizations in Charge: responsible agents and state authorities who received the funds
- Contractor Ownership: owners of the construction companies

Only 19% of Olympic funds were used to build sport venues

![Pie chart showing Olympic spending pattern](chart.png)

**Sources:** RF Government Decree #991, Annual reports of Olympstroy and other entities, ACF analysis
Nearly a third of Olympic spending was routed through Gazprom and Russian Railways

Sources: RF Government Decree #991, Annual reports of Olimpstroy and other entities, ACF analysis

More than $22.1 bn of Olympic spending was controlled by seven businessmen

1 Companies with unknown beneficiaries and objects with no available information on contract amounts and contractors

Sources: RF Government Decree #991, Annual reports of Olimpstroy and other entities, ACF analysis
We have identified between five and ten problems with each of the 24 Olympic projects we have analyzed: the most frequent point of concern is personal ties between contractors and government officials.

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<tr>
<th>Site</th>
<th>Overpriced</th>
<th>Offshore shareholders</th>
<th>VEB doubtful loan</th>
<th>Contractor linked to government officials</th>
<th>No bidding on contractor selection</th>
<th>Environmental violations</th>
<th>Construction started without permissions</th>
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<td>Fisht Olympic stadium [page 36]</td>
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<td>Bolshoy Ice Dome [page 34]</td>
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<td>Shayba Arena [page 52]</td>
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<td>Adler-Arena Skating Centre [page 32]</td>
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<td>Iceberg Skating Palace [page 40]</td>
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<td>Ice Cube Curling Centre [page 41]</td>
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<td>Olympic Village [page 72]</td>
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<td>Mountain Carousel Complex [page 45]</td>
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<td>Sanki Sliding Centre [page 50]</td>
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<td>Rosa Khutor Alpine Centre [page 48]</td>
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<td>Laura Biathlon &amp; Ski Complex [page 43]</td>
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<td>Formula One Track [page 38]</td>
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<td>Road to the Lunnaya Polyana (Moon Glade) [page 83]</td>
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<td>Media Centre [page 70]</td>
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<td>Imereti Port [page 68]</td>
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<td>Sochi International Airport [page 61]</td>
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<td>Relief road for the Sochi Kurortny Avenue [page 79]</td>
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<td>Adler CHP plant [page 59]</td>
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<td>Organizing Committee and Olympstroy Office Centre [page 77]</td>
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<td>Sochi, the Presidential Resort [page 87]</td>
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<td>Sochi-park theme park [page 85]</td>
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<td>Azimut Hotel [page 64]</td>
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<td>International Olympic University [page 66]</td>
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Sources: RF Government Decree #991, Federal Laws on Budget, Annual reports of Olympstroy and other entities, ACF analysis
Lack of Transparency in Awarding Contracts

A lot of companies took part in the construction of Olympic venues. We can divide them into three groups:

- GK Olympstroy
- responsible agents and investors (state-owned and private organizations responsible for funding and constructing specific venues)
- contractors (state-owned and private organizations directly involved in construction works)

We analyzed how these companies had been chosen. The process can be divided into three types:

- selection of responsible agents (investors) listed in the Governmental Decree no. 991 “On the Olympic Venue Construction and Development of Sochi as a Mountain Resort”
- selection of responsible agents (investors) and contractors by GK Olympstroy
- selection of contractors by state-owned corporations (e.g. Gazprom and Russian Railways)

In the first case, responsible agents and investors have been agreed on during a Government session. This process was not transparent and there were no public procedures in place for a competitive contractor selection. This doesn’t allow one identify a real reasoning behind inclusion of certain companies into the Olympic building project.

In the second case, GK Olympstroy chose the builders, investors and contractors directly. According to the Russian legislation valid until January 1, 2012, Olympstroy should have chosen contractors based on requests for quotation. This procedure enabled a quick comparison of price quotations, however, any company could be disqualified.

In light of the new state procurement legislation coming into force, Olympstroy approved its own Goods and Services Procurement Regulation effective January 1, 2012. However, this regulation does not restrict violations. On the contrary, companies requesting quotations could now limit competition by setting extra short construction periods (1-2 days), arbitrary requirements or numerous participant assessment criteria. This being said, there isn’t a law that stipulates responsibility for abusing the state procurement regulations.

In the third case, when large state-owned companies, such as Gazprom or RZD, determined the contractors, the legislation defined the same requirements as with Olympstroy.

The process of selecting contractors for the Olympic venues and awarding very expensive contracts was not transparent and provided room for violations due to flaws in the legislation.

The Anti-Corruption Foundation is continuously monitoring procurements of state agencies on the State Procurement web portal. Unfortunately only a small share of Olympic procurement contracts have been made publicly available. However, even this small part made it possible for the Anti-Corruption Foundation to file several police reports on violations worth over $183 mn.
Personal Ties between Contractors and Officials

Responsible agents had to choose contractors for their Olympic venues. This process is governed by certain regulations defining a competitive services and goods provider selection procedure. Ideally, the Olympic venues should have been constructed only by experienced companies with the lowest price quotation and all necessary financial and operating resources.

The Lack of Transparency in Awarding Contracts [page 17] section describes how the contractor selection was done in reality.

We examined only the companies that were awarded the contracts, particularly their owners who received exorbitant funds to construct different venues.

Surprisingly, it turns out that a significant part of the money was received by companies explicitly or implicitly related to several Russian officials.

Companies owned by friends of Vladimir Putin were awarded contracts worth some $6.9 bn to construct following facilities:

- New Kurortny Prospekt Route [page 79]
- Formula One race Track [page 38]
- Media Centre [page 70]

Companies affiliated with other government officials were awarded contracts worth $7.3 bn, including following venues:

- Laura Biathlon & Ski Complex, Gazprom Mountain Tourist Centre [page 43]
- Sochi-park theme park [page 85]
- Ice Cube Curling Centre [page 41]
- Office building for the Organizing Committee of the Games [page 77]

As a result, we are dealing with a classic conflict of interest when a state official is related to or has other personal relationships with the owner of a profit-making business. Such relationships could have influenced or have already influenced decisions made by state officials, which unfortunately mostly results in harming the state’s or public interests.

An additional indirect proof of relationships between contractors and officials is a common practice of starting the construction before all necessary permits are obtained. This also applies for construction projects in specially protected areas, for example in Adler-Krasnaya Polyana Road [page 54] the car and rail road project or the Media Centre [page 70].
Expenditure on Non-Olympic Venues

Another issue we noted is the construction of facilities which are not related to the Olympic Games. This includes not only for infrastructure improvements, but also for sport and entertainment venues.

Several non-Olympic facilities worth at least $1.7 bn have been constructed during the Games preparation. These facilities were financed either using loans from the state banks or directly from the state budget. Below are some of them:

10 projects unrelated to the actual Olympic Games cost $1,69 bn

<table>
<thead>
<tr>
<th>Site</th>
<th>Cost, mn $</th>
<th>Organization in charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sochi-park theme park</td>
<td>12</td>
<td>OAO Sochi Park</td>
</tr>
<tr>
<td>Presidential residence Psekhako</td>
<td>10,9</td>
<td>The Dar Foundation</td>
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<tr>
<td>Road to the Lunnaya Polyana (Moon Glade)</td>
<td>9,4</td>
<td>State entity Sochinsky National Park</td>
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<tr>
<td>Elektronika Spa Resort for Prosecutors</td>
<td>9,1</td>
<td>General Prosecutors’ Office</td>
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<td>Yuzhniy Spa Resort</td>
<td>4,1</td>
<td>Bank Rossiya</td>
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<td>Spa Resort of Presidential Administration (Sochi)</td>
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<td>Presidential Administration</td>
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<tr>
<td>Spa Resort of Presidential Administration (Rus’)</td>
<td>2</td>
<td>Presidential Administration</td>
</tr>
<tr>
<td>Spa Resort of Presidential Administration (Primorkiy pavilion)</td>
<td>1,9</td>
<td>Presidential Administration</td>
</tr>
<tr>
<td>Health Resort Dagomys</td>
<td>1,4</td>
<td>Presidential Administration</td>
</tr>
<tr>
<td>Formula One Track</td>
<td>0,9</td>
<td>OAO Zentr Omega</td>
</tr>
<tr>
<td>Church near Olympic train station</td>
<td>0,5</td>
<td>Krasnodar Region General Construction Office</td>
</tr>
</tbody>
</table>

Sources: RF Government Decree #991, Federal Laws on Budget, Annual reports of Olympstroy and other entities, ACF analysis
Peculiarities of Spending

Excessive Construction Costs

One of the most striking issues is the construction cost of Olympic venues. This issue has two aspects.

According to the calculations of the Anti-Corruption Foundation, the initial project cost estimate increased fourfold on average. The initial contractual price was being inflated by supplementary agreements willingly signed by both parties. For example the budget of the main Olympic stadium Fisht [page 36] increased 14 times since the earliest estimate.

Some examples of often quoted reasons for the cost increase include:

- errors during the initial calculation. For example some budgetary calculations did not include land purchase from the current owners or the luge and bobsleigh track luge and bobsleigh track [page 50] design documentation did not consider some specific geological aspects
- requirements review both by IOC to the Sochi Organizing Committee and by Olympstroy to the contractors

Nine projects went over-budget by 4.3 times

<table>
<thead>
<tr>
<th>Project</th>
<th>Initial cost estimation in 2006, mn $</th>
<th>Final cost, mn $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olympic Village</td>
<td>88</td>
<td>764</td>
</tr>
<tr>
<td>Adler CHP Plant</td>
<td>242</td>
<td>703</td>
</tr>
<tr>
<td>Fisht Olympic Stadium</td>
<td>50</td>
<td>703</td>
</tr>
<tr>
<td>Bolshoy Ice Dome</td>
<td>175</td>
<td>302</td>
</tr>
<tr>
<td>Iceberg Skating Palace</td>
<td>44</td>
<td>272</td>
</tr>
<tr>
<td>Russian Hills Olympic springboards</td>
<td>38</td>
<td>244</td>
</tr>
<tr>
<td>Sanki Sliding Centre</td>
<td>131</td>
<td>241</td>
</tr>
<tr>
<td>Adler-Arena Skating Centre</td>
<td>34</td>
<td>226</td>
</tr>
<tr>
<td>Shayba Arena</td>
<td>31</td>
<td>104</td>
</tr>
</tbody>
</table>

Sources: RF Government Decree #991, Federal Laws on Budget, Annual reports of Olympstroy and other entities, ACF analysis
Besides cost increases, the second issue concerns the final venue costs. The Anti-Corruption Foundation has analyzed 24 Olympic venues, worth $25.1 bn in total. It's not possible to compare all venues with similar projects to determine possible overcharging, but we were able to positively identify 10 cases, worth $13.3, where fair comparisons can be made.

According to different sources, the Fisht stadium cost from $532 bn to $703 bn but even the most conservative figure makes Fisht 1.9 times more expensive than similar stadiums. We have compared this venue with seven other stadiums using data from KPMG and calculated the cost per spectator seat. A seat at Fisht cost $13,300 to build with next most expensive stadiums being Donbass Arena in Ukraine ($8,400) and St. Jakob Park in Switzerland ($7,800).

Total overcharge for the analyzed venues is $5.6 bn or 42% of the total costs. It is highly probable that this overcharge is driven by the contractors and builders seeking to take advantage and embezzle provided funds. For instance, OAO Krasnaya Polyana transferred at least €1.7 mn to its offshore parent company for the development of venue concepts before the construction works started. In reality these services were provided by a foreign architectural firm, but were paid for through an intermediary. It is hard to evaluate how much these concepts really cost, but the described scheme with an unknown price paid by an affiliated offshore company surely represents a risk of fraudulent practices.

The cost inflation of 10 projects amounted to $5.62 bn in absolute terms

<table>
<thead>
<tr>
<th>Venue</th>
<th>Average cost of similar object, mn $</th>
<th>Final cost, mn $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adler-Krasnaya Polyana Road</td>
<td>4 250</td>
<td>8 072</td>
</tr>
<tr>
<td>Relief Road of Sochi Kurortnyi Avenue</td>
<td>1 955</td>
<td>2 542</td>
</tr>
<tr>
<td>Adler CHP Plant</td>
<td>449</td>
<td>703</td>
</tr>
<tr>
<td>Fisht Olympic Stadium</td>
<td>281</td>
<td>703</td>
</tr>
<tr>
<td>Bolshoy Ice Dome</td>
<td>116</td>
<td>302</td>
</tr>
<tr>
<td>Iceberg Skating Palace</td>
<td>119</td>
<td>272</td>
</tr>
<tr>
<td>Sanki Sliding Centre</td>
<td>150</td>
<td>241</td>
</tr>
<tr>
<td>Adler-Arena Skating Centre</td>
<td>95</td>
<td>226</td>
</tr>
<tr>
<td>Organizing Committee and Olimpstroy office centre</td>
<td>116</td>
<td>153</td>
</tr>
<tr>
<td>Shayba Arena</td>
<td>70</td>
<td>104</td>
</tr>
</tbody>
</table>

Sources: RF Government Decree #991, Federal Laws on Budget, Annual reports of Olimpstroy and other entities, ACF analysis.
It appears that the venue construction costs had been significantly underestimated from the start, making the budget approval and contract awarding easier for the responsible agents, investors and contractors, only to be significantly overrun afterwards, so that a part of the money could possibly be embezzled.

Dramatic cost increases for most of the venues also show that concept of budgeting per se had seen limited use during the Olympics preparation. Contractors or investors themselves demanded additional funding and, more often than not, received the money.

Initial underestimation of costs could have also been used to eliminate foreign investors and contractors from the tendering process, as they would not accept any projects which were impossible to complete on budget.

Whatever the reasons for underestimation and subsequent overruns, the general public in Russia had been misled about how much the government is going to spend for the Olympics. The original $12 bn estimate soared to $46 bn total costs and it’s highly probable that much of it had not been used for the Olympics and simply embezzled.
Offshore-Based Contractors

According to the calculations of the Anti-Corruption Foundation, companies with Olympic contracts worth $13 bn have offshore shareholders. This is a corruption and fraud risk which can lead to the following consequences:

- impossibility of beneficiaries identification
- decreased tax returns
- increased risks for banks which finance the project
- weakened responsibility of contractors for their performance

Moreover, having offshore companies as shareholders contradicts the “deoffshorization” agenda proclaimed by Vladimir Putin in 2012.

At least 28% of Olympic contracts were awarded to the firms with offshore shareholders

<table>
<thead>
<tr>
<th>Entities with offshore shareholders</th>
<th>Amount, bn $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vladimir Potanin – Profestate</td>
<td>3,03</td>
</tr>
<tr>
<td>Arkady Rotenberg – Mostotrest</td>
<td>2,70</td>
</tr>
<tr>
<td>Magomed Bilalov – Krasnaya Polyana</td>
<td>2,66</td>
</tr>
<tr>
<td>Arkady Rotenberg – Stroygazmontazh</td>
<td>1,51</td>
</tr>
<tr>
<td>Arkady Rotenberg – Inzhtransstroy Corporation</td>
<td>1,46</td>
</tr>
<tr>
<td>Oleg Deripaska – RogSibAl</td>
<td>0,77</td>
</tr>
<tr>
<td>Victor Vekselberg – Top Project</td>
<td>0,48</td>
</tr>
<tr>
<td>Roman Batalov (Alexander Tkachyov) – Sochi-Park</td>
<td>0,28</td>
</tr>
<tr>
<td>Others</td>
<td>0,16</td>
</tr>
</tbody>
</table>

$13,06 bn

Sources: RF Government Decree #991, Annual reports of Olimpstroy and other entities, ACF analysis

28% Offshore detected

100% = $45.8 bn

72% No offshores or impossible to identify owners

$32,77 bn
Bad Debts of Vnesheconombank

In fall 2013, it was reported that $5.8 bn out of $7.6 bn in Olympic loans provided by Vnesheconombank are distressed and have to be restructured. According to the Vedomosti business daily, these projects are unprofitable with loans being unrecoverable without additional support. The Government provided for this type of support in 2012 with a special decree to cover Vnesheconombank’s losses made in Olympic projects from the state budget.

As mentioned earlier, genuinely private investors use capital borrowed from the state rather than their own money to finance the construction.

В целях обеспечения финансовой устойчивости государственной корпорации "Банк развития и внешнеэкономической деятельности (Внешэкономбанк)" при реализации инвестиционных проектов, имеющих общегосударственное значение:

1. Согласиться с предложением Минфина России, согласованным с заинтересованными федеральными органами исполнительной власти, государственной корпорацией "Банк развития и внешнеэкономической деятельности (Внешэкономбанк)" (далее - Внешэкономбанк), а также с Государственной корпорацией по строительству олимпийских объектов и развитию города Сочи как горноклиматического курorta, о предоставлении из федерального бюджета начиная с 2014 года субсидий Внешэкономбанку на возмещение затрат (убытков) в случаях возникновения у него таких затрат (убытков) по сделкам кредитования хозяйственных обществ (инвесторов), осуществляющих проекты по строительству олимпийских объектов в рамках Программы строительства олимпийских объектов и развития города Сочи как горноклиматического курorta, в части, не компенсируемой доходами от продажи имущества, предоставленного по договору залога в обеспечение кредита.

2. Минфину России на основании предложений Внешэкономбанка, согласованных с Минрегионом России, при формировании федерального бюджета на 2014 год и последующие годы предусматривать бюджетные ассигнования федерального бюджета, необходимые для предоставления субсидий, указанных в пункте 1 настоящего распоряжения.
It was expected that private investors would be using loan capital in the following way:

- An investor is chosen during tendering or is appointed by the responsible agent to construct an Olympic venue with specific characteristics.
- The project is financed for 30% with investor's own funds and to 70% with loans from Vnesheconombank. The loan agreement provides for collateral requirements through a third-party guarantee or pledge of property.
- The investor builds the venue and hands it over to the Organizing Committee for temporary use until the Games are over.
- After the Games, the investor operates the venue at his discretion to generate profits.
- The debt is repaid according to the loan agreement.

It soon turned out that the requirements to the venues are likely to change, leading to cost increases. In response to this, additional loans were granted to the investors, increasing the loan-to-value ratio to 85% on the average, although it rarely exceeds 80% under normal market conditions.

Due to the fact that requirements had changed, investors were unable to operate the venues profitably as previously planned. In November 2013, having spent the funds allocated for venue construction, investors delivered an ultimatum stressing that they would not be able to repay their debts unless they are restructured. Under restructuring the bank can change the loan conditions by postponing interest payments and extending the loan term.

In a situation when investor is unable to repay the loan after restructuring, Vnesheconombank has the option to use securitization. The main loan securities are Olimpstroy's guarantees and redemption rights for the stock of the companies owning the venues.

So in case a debtor defaults on the loan, Vnesheconombank will either receive state funds from Olimpstroy or take the possession of the venue. But this might not compensate for Vnesheconombank losses as the bank will be unable to sell or operate the venue at a profit. Many experts doubted that profitable operation of Olympic facilities was possible after the Games, including commercial property (e.g. hotels and offices).

Here's an example of this defaulting event: an investor (OAO Krasnaya Polyana) constructed the Mountain Carousel Complex. The project was financed in two following ways:

- Vnesheconombank loans totaling $1.6 bn, as described earlier
- contributions to equity capital by acquiring new shares, totaling $0.8 bn; new shares were bought by OAO Sberbank Rossii, a state-controlled bank

As a result of corruption scandal, the investor withdraw ownership and responsibility under the loan agreement. The venue had become state property before the Games started and currently Sberbank owns over 90% of OAO Krasnaya Polyana.
Addendum

Personalia

Data on individuals who are directly or indirectly related to the Olympics preparations or otherwise mentioned in other sections. This list also includes information on companies affiliated or owned by these individuals.

Oleg Deripaska

Main shareholder of UC Rusal, the world-largest aluminum producer. Founder and Head of the Supervisory Board in the Bazoviy Element holding. Deripaska’s wealth is estimated a $8.5 bn as of 2013. Before the 2008 crisis, he had been the wealthiest Russian.

The Basic Element group includes Transstroy, Imereti Port, Rogsibal, Sochi International Airport, and Bazel Aero.

Relations to Olympic Venues: Olympic Village [page 72], Imereti Port [page 68], Sochi International Airport [page 61], Relief road for the Sochi Kurortny Avenue [page 79]

Dmitriy Medvedev

Chairman of the Government of the Russian Federation. Served as President from 2008 to 2012, stepped down and did not run for a second term as agreed with Vladimir Putin. Medvedev also is a formal leader of the ruling United Russia party. From 2000 to 2008, Medvedev worked as the Chairman of the Gazprom Board of Directors.

Dmitriy Novikov, president of ZAO Rosinzhiniring, taught Medvedev to ski. Ilya Yeliseyev, head of the DAR foundation supervisory board, is the vice president of Gazprombank and fellow student of Medvedev.

Relations to Olympic Venues: Gazprom’s alpine tourist centre (ATC), Laura Biathlon & Ski Complex [page 43]

Vladimir Potanin

Owner of the Interros investment company with main assets being MMC Norilsk Nickel shares. Potanin’s wealth is estimated at $14.3 bn as of 2013. He supported the idea of holding the Olympics in Sochi and sponsored Sochi’s bid in Guatemala. Largest private investor of the Games.

President of Interros, owns the Rosa Khutor Mountain Resort Development Company and OOO University Plaza.

Relations to Olympic Venues: Rosa Khutor Alpine Centre [page 48], freestyle venue, mountain Olympic Village [page 72]; International Olympic University [page 66]
Vladimir Putin

President of Russia. He was elected in 2000 and stepped down after serving two terms, barred from the third consecutive term by the Constitution. In 2012, he won the presidential elections again. Putin is friends with the largest Olympic contractors, Vladimir Yakunin and Arkadiy Rotenberg.

Co-founded the Ozero co-operative society together with Vladimir Yakunin, now head of the RZD. Arkadiy Rotenberg (shareholder of OAO Mostotrest, OOO Stroygazmontazh, TEK Mosenergo, OOO Inzhtransstroy, OOO Transstroymehanizatsiya) had been Putin’s judo sparring partner and remains close friends with him.

Relations to Olympic Venues: The Sochi 2014 Winter Olympics [page 6]

Arkadiy Rotenberg

Largest contractor of the government. His companies build gas pipelines, roads, bridges and other facilities all over Russia. Over 1 trillion rubles in contracts had been awarded to him in recent 5 years. Rotenbergs’s wealth is estimated at $3.3 bn as of 2013. Close friend of V. Putin, formerly his judo sparring partner.

Co-owner of OAO Mostotrest, OOO Stroygazmontazh. His son Igor chairs the board of TEK Mosenergo.

Relations to Olympic Venues: Adler-Krasnaya Polyana Road [page 54], Relief road for the Sochi Kurortny Avenue [page 79], Sochi International Airport [page 61], Media Centre [page 70], Formula One Track [page 38], gas pipeline, Adler CHP plant [page 59].

Gennadiy Timchenko

Owns 44% of Gunvor, one of the largest commodity traders in the world with sales of over $93 bn in 2012. Timchenko’s personal wealth is estimated at $14.1 bn. He is widely thought to be friends with Vladimir Putin.

In 2012, Timchenko acquired 25% of SK MOST, a construction company which includes OAO Stroy-trest.

Relations to Olympic Venues: Adler-Krasnaya Polyana Road [page 54]

Alexander Tkachev

Governor of the Krasnodar Region from 2000, member of United Russia’s Supreme Council. Served two terms as Deputy of the State Duma. Founder and ex-CEO of Agrokomplex, one of the largest companies in the Krasnodar Region. Current CEO of the company is Tkachev’s father.

Tkachev initiated the law on an additional issue of shares for OAO Zentr Omega, a 100% Krasnodar region-owned company. Roman Batalov, Tkachev’s brother-in-law, is the Assistant Director General of OAO Sochi-Park.

Relations to Olympic Venues: Adler-Arena Skating Centre [page 32], Media Centre [page 70], Formula One Track [page 38], Sochi-park theme park [page 85].
Vladimir Yakunin

President of the Russian Railways (RZD) from June 2005, Yakunin co-founded the Ozero co-operative society back in 1996 together with V. Putin, President of Russia, Yuriy Kovalchuk and Nikolai Shamalov, major shareholders of the Rossiya bank. Yakunin’s children run their own businesses and live abroad.

Relations to Olympic Venues: Adler-Krasnaya Polyana Road [page 54]
Companies

Vnesheconombank

Vnesheconombank is a Russian state-owned corporation financing large-scale infrastructure projects and supporting Russian enterprises. Vnesheconombank also manages pension assets of those who decided not to transfer them to private investment companies. The corporation invested over 248 bn rubles in the Olympics. Vladimir Potanin, Akhmed Bilalov and Oleg Deripaska received the largest loans.

*Relations to Olympic Venues*: Rosa Khutor Alpine Centre [page 48], Mountain Carousel Complex [page 45], Olympic Village [page 72] and other.

OAO Gazprom

OAO Gazprom is a Russian energy company producing, transporting, processing and selling natural gas with a 4.76-trillion-ruble turnover as of 2012. Gazprom invested over 180 bn rubles in the Olympics. Alexey Miller is Gazprom’s Chairman of the Management Committee. Dmitriy Medvedev had chaired Gazprom’s board of directors before being elected as President.

*Relations to Olympic Venue*: Gazprom’s alpine tourist centre (ATC), Laura Biathlon & Ski Complex [page 43], Adler CHP plant [page 59], the Dzhubga-Lazarevskoye-Sochi gas pipelines.

ZAO Obyedineniye Ingeokom

ZAO Obyedineniye Ingeokom is one of the largest Moscow construction companies. Owing to close ties of its founder, Mikhail Rudyak, with Yuriy Luzhkov, the former Mayor of Moscow, Ingeokom was awarded lots of state contracts. After Rudyak died in 2007, his family inherited the company. Ingeokom’s contracts in Sochi amount to 32 bn rubles. Alexander Rudyak, son of Ingeokom’s founder Mikhail Rudyak, is now the President.

*Relations to Olympic Venues*: Fisht Olympic stadium [page 36], Iceberg Skating Palace [page 40].

OOO Korporatsiya Inzhtransstroy

OOO Korporatsiya Inzhtransstroy was established in 2007 and specializes in building roads, bridges, airports and other transport infrastructure facilities. Over 70 bn rubles in Olympics contracts for at least 11 venues.

Ex-Minister of Construction Yefim Basin is the president and majority shareholder of Inzhtransstroy. From June 2010 to February 2013, Arkadiy Rotenberg’s Mostotrest was holding the control stake in Inzhtransstroy.

*Relations to Olympic Venues*: Media Centre [page 70], Formula One Track [page 38], Airport [page 61], port cargo area, Maliy Akhun residences, some minor roads and junctions.
**OAO Inter RAO UES**

OAO Inter RAO UES is a Russian energy provider producing and selling electricity. Inter RAO also owns some power stations abroad. Net loss in 2012: 26.7 bn rubles. Total amount of Olympic contracts: about 22.5 bn rubles.

Boris Kovalchuk is the Chairman of the Management Board, Igor Sechin chairs the Board of Directors.

*Relations to Olympic Venues:* Sochi and Dzhubga CHP plants.

**OAO SK MOST**

OAO SK MOST is one of the largest construction companies in Russia. In 2008, the SK MOST was awarded the contract to construct the bridge to the Russkiy island following President Medvedev’s decree. SK MOST owns OAO Stroy-trest, a contractor for the Adler-Krasnaya Polyana car and rail link project, worth some 180 bn rubles.

Main owners of SK MOST are Yevgeniy Sur, Vladimir Kostilev and Gennadiy Timchenko (bought a 25%-stake in 2012).

*Relations to Olympic Venues:* Adler-Krasnaya Polyana Road [page 54]

**OOO NPO Mostovik**

OOO NPO Mostovik is an Omsk-based engineering and construction company specializing in bridges, tunnels and technically challenging projects. Mostovik built the bridge to the Russkiy island. The company is the 10th largest contractor in Russia, with over 70 bn rubles in Olympics contracts for over 30 venues.

Oleg Shishov is the CEO and major shareholder of the company. Vyacheslav Dvorakovskiy, current Mayor of Omsk and Mostovik’s ex-CTO, co-owns Mostovik.

*Relations to Olympic Venues:* Bolshoy Ice Dome [page 34], Sanki Sliding Centre [page 50], Ice Cube Curling Centre [page 41], utility lines in the Imereti Lowland, three railway stations and other venues.

**Russian Railways (OAO RZD)**

OAO RZD is a state monopoly operating railway services in Russia. 320 bn rubles were invested in the Games by RZD, including 241 bn from the state budget following an additional issue of shares.

Vladimir Yakunin is RZD’s President.

*Relations to Olympic Venues:* Adler-Krasnaya Polyana Road [page 54], three railway lines and several railway stations.
ZAO Rosinzhiniring

ZAO Rosinzhiniring is a St Petersburg-based construction company specializing in mountain ski resorts and snow-making systems. Total amount of Olympic contracts: about 90 bn rubles.
Dmitriy Novikov is the founder and President of Rosinzhiniring. He taught Prime Minister Medvedev to ski.

Relations to Olympic Venues: Gazprom’s alpine tourist centre (ATC) and Laura Biathlon & Ski Complex [page 43].

OOO Stroygazmontazh

OOO Stroygazmontazh is one of the largest contractors of Gazprom focused on gas pipelines and utilities for gas fields. Its contracts in Sochi amount to some 40 bn rubles.
Arkadiy Rotenberg owns the company through a Cyprus-based offshore.

Relations to Olympic Venues: the Dzhubga-Lazarevskoye-Sochi gas pipeline.

FGC UES

FGC UES operates the electricity transmission grid in Russia. FGC is controlled by the government, about 20% of stock belongs to private investors. FGC invested 28 bn rubles into the Olympics, including 14.8 bn from the state budget.
Oleg Budargin is the head of the Board of Directors, Andrey Murov chairs the Management Board.

Relations to Olympic Venues: construction of power lines and substations.

OAO Holding MRSK

OAO Holding MRSK is a group of regional and interregional power distribution companies. In March 2013, the holding was renamed OAO Rossiyskiye seti. The majority stake is held by the government.
MRSK invested 31.1 bn rubles into the Olympics, including 19.3 bn from the state budget.
Oleg Budargin is the CEO, ex-Minister of Energy Sergey Shmatko chairs the Board of Directors.

Relations to Olympic Venues: construction of the distribution networks and substations for Olympic venues.

OAO Zentr Omega

OAO Zentr Omega is a 100% Krasnodar region-owned company and acts as an investor in governmental construction projects. The company is funded by selling its stock to the Krasnodar region government (through an additional issue of shares). Omega’s contracts in Sochi exceed 69 bn rubles. Governor Alexander Tkachev initiates additional issue of Omega’s shares.

Relations to Olympic Venues: Adler-Arena Skating Centre [page 32] Media Centre [page 70], Formula One Track [page 38], Maliy Akhun residences and auxiliary venues in the Olympic park.
Olympic Sites

Sports

Adler-Arena Skating Centre

The venue was built by Tsentr Omega. At the start of construction, officials referred to the company as a “private investor”, but this turned out to be an exaggeration. Over the last four years, the company has received more than $1.8 bn. from the budget of the Krasnodar Krai region at the initiative of governor Tkachev and with the consent of the local United Russia deputies. The funds were used to construct 7 Olympic facilities, including the Adler Arena. The officials threw this money down the drain considering that the cost of the stadium soared 7 times over during the construction. The Adler Frena cost $28,300 per seat to construct.

Description

Adler Arena houses an ice rink that seats 8,000 people. This is one of the six main sports arenas for the Winter Games, situated in the Imereti Lowlands. Tsentr Omega was in charge of construction. The stadium was completed and commissioned on December 12, 2012.

Cost and “private” financing

A 2006 decree by the government of the Russian Federation put the contract value at $33.6 mn. Subsequently, however, it rose quite sharply. Tsentr Omega’s Annual Report for 2011 forecast construction costs at $189.6 mn. In the end, the costs increased 6.7 times as compared with the initial assessment and reached $226.3 mn.

In a 2010 meeting with then-president Dmitri Medvedev, Taymuraz Bolloyev (at that time the president of state-owned company Olimpstroy) attributed the financing of the rink to private investors.

In reality, Tsentr Omega, despite its formal status as a joint stock company, is owned by Krasnodar Territory and the only source of its funds is the local budget.

The company raises revenue through periodic issue of stock, which is paid for by Krasnodar Territory out of its budget funds. These state purchases of Tsentr Omega stock are authorized by the legislative assembly of Krasnodar Territory, where 95% of MPs are United Russia party members. For the five years between 2009 and 2013, Tsentr Omega received $1.9 mn out of the regional coffers in this manner.

This company is a non-transparent structure that functions to divert and appropriate of local funds without accountability.
Comparison with equivalent facilities

The Anti-Corruption Foundation compared the per-seat cost of the Adler Arena to other Olympic stadia. It turns out that the Sochi facility comes at a whopping $28,000 per seat, making it 2.4 times more expensive than the average for analogous facilities abroad. The amount of waste is consequently $130 million.

**Table 1. Per-Seat Cost of Olympic Hockey Arenas**

<table>
<thead>
<tr>
<th>Name of Arena</th>
<th>City</th>
<th>Year of Opening</th>
<th>Capacity (Hockey)</th>
<th>Cost of stadium in 2013 prices, $ mn</th>
<th>Cost per seat in 2013, $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adler-Arena</td>
<td>Sochi</td>
<td>2012</td>
<td>8 000</td>
<td>224.0</td>
<td>28,000</td>
</tr>
<tr>
<td>Utah Olympic Oval</td>
<td>Utah</td>
<td>2001</td>
<td>6 500</td>
<td>39.0</td>
<td>6,000</td>
</tr>
<tr>
<td>Lingotto Oval</td>
<td>Turin</td>
<td>2005</td>
<td>6 500</td>
<td>118.0</td>
<td>13,900</td>
</tr>
<tr>
<td>Science Oval</td>
<td>Pyeongchang</td>
<td>2017</td>
<td>8 000</td>
<td>112.0</td>
<td>14,000</td>
</tr>
</tbody>
</table>

Note: The cost of each stadium is calculated in US dollars adjusted for inflation at the time of opening (in 2013 prices).

The Olympic Oval in Richmond (Canada) is not used for comparison because its total stated cost includes expenditures for the reconstruction of transportation routes on the Fraser River as well as squares and parks on the embankment in the adjacent city. It is thus difficult to determine the cost of the stadium itself.
Bolshoy Ice Dome

The main business of Mostovik, the stadium’s contractor, is bridge and tunnel construction. Mostovik’s most famous project is a bridge to the Russky Island, built for the Asian Pacific Economic Cooperation (APEC) summit. Its construction cost, $1 bn, was higher than for any similar bridge across the globe. A similar story played out with the construction of the Bolshoy Ice Dome. The Bolshoy arena cost $25,200 per seat, which is 2.4 times more expensive than its equivalents. The company is co-owned by Vyacheslav Dvorakovsky, the current mayor of Omsk. No government officials have raised questions regarding the construction costs.

Description

The main hockey stadium is a key Olympic landmark, and its construction has garnered significant attention. Oddly enough, the contract was awarded to Mostovik, a company which had never previously built a sport venue. Mostovik also won several other Olympic contracts for over $1.8 bn.

Arena cost

The average per-seat cost for similar hockey stadiums is $11,100; Sochi’s is 2.3 times higher. The total waste as compared with other hockey arenas: $167 mn.

Comparison of costs of hockey stadiums

<table>
<thead>
<tr>
<th>Name of Arena</th>
<th>City</th>
<th>Year opened</th>
<th>Seating capacity for hockey</th>
<th>Construction costs as of 2013, $ mn</th>
<th>Cost per seat as of 2013, $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolshoy Ice Dome</td>
<td>Sochi</td>
<td>2013</td>
<td>12,000</td>
<td>300</td>
<td>25,000</td>
</tr>
<tr>
<td>Palacesport Olimpiko</td>
<td>Turin</td>
<td>2005</td>
<td>12,000</td>
<td>162</td>
<td>13,500</td>
</tr>
<tr>
<td>Winter Sports Centre</td>
<td>Vancouver</td>
<td>2008</td>
<td>7,500</td>
<td>51</td>
<td>6,800</td>
</tr>
<tr>
<td>Rodgers Arena</td>
<td>Vancouver</td>
<td>1995</td>
<td>18,630</td>
<td>220</td>
<td>11,800</td>
</tr>
<tr>
<td>Megasport Sports Palace</td>
<td>Moscow</td>
<td>2006</td>
<td>14,000</td>
<td>154</td>
<td>11,000</td>
</tr>
<tr>
<td>O2 World</td>
<td>Berlin</td>
<td>2008</td>
<td>14,200</td>
<td>237</td>
<td>16,700</td>
</tr>
<tr>
<td>Iss House</td>
<td>Dusseldorf</td>
<td>2006</td>
<td>13,400</td>
<td>106</td>
<td>7,900</td>
</tr>
<tr>
<td>BOK Centre</td>
<td>Tulsa</td>
<td>2008</td>
<td>17,096</td>
<td>213</td>
<td>12,500</td>
</tr>
<tr>
<td>Zagreb Arena</td>
<td>Zagreb</td>
<td>2008</td>
<td>15,024</td>
<td>126</td>
<td>8,400</td>
</tr>
<tr>
<td>SAP Arena</td>
<td>Manheim</td>
<td>2005</td>
<td>13,600</td>
<td>124</td>
<td>9,100</td>
</tr>
</tbody>
</table>

Note. Venue costs were converted to USD and adjusted for inflation as of 2013.

Mostovik’s range

The general contractor of the Bolshoy Ice Dome is Omsk-based Mostovik, which won the contract in March 2009 despite not having any experience in constructing sport venues.

Mostovik’s CEO and largest shareholder is Oleg Shishov, a United Russia deputy in the Omsk Legislative Assembly. The company is co-owned by Vyacheslav Dvorakovsky, the current mayor of
Leonid Polezhayev, the head of the Omsk Region for 20 years, called Mostovik "his brainchild". Close links to the regional government bring Mostovik lots of local government contracts.

In 2008-2012, Mostovik built the bridge to the Russky Island in partnership with Gennady Timchenko's USK Most at a price of $978.6 mn. Shishov and his company were personally invited to construct the bridge by German Gref, Sberbank's CEO. Gref studied in the Omsk Region and devotes a lot of attention to the region's capital. He is also close friends with Shishov. Moreover, Sberbank is Mostovik's largest financial backer.

Mostovik’s contracts in Sochi amount to over $2.1 mn. A criminal case has already been opened over cost-inflation during construction of the sliding track.

After completing the Olympic projects at unusually high costs that have attracted prosecutorial attention, Mostovik was nonetheless awarded two major state contracts: the 443.4-mn-dollar Veduchi ski resort in Chechnya and the Elegest-Kizil-Kuragino railway line for $6.0 bn. Mostovik has also won the bidding to design a stadium in Kaliningrad for the 2018 Football World Cup.
Fisht Olympic stadium

Original estimates amounted to $49 mn with official claiming this was “the most expensive variant”. During construction, the costs soared 14 times higher. The main contractor for the stadium is Ingeokom, a company famous for delaying construction, overcharging and never suffering consequences. For instance, when Ingeokom was building the Atrium shopping mall in Moscow, it was suspected of embezzlement, but the case never came to trial. The same is true for Sochi. In August, investigators announced criminal charges over the Fisht construction costs, but the case has not been submitted to the court.

Luzhkov’s advisor

In 2009, Ingeokom began constructing one of the largest sports facilities of the Olympics – the main stadium with a capacity of 40,000 people. This is where the opening and closing ceremonies of the Olympics will take place. As it turned out, the construction was illegal – the environmental study of the project took place a year and a half after construction had already begun.

Ingeokom has long been known in the developer’s market in Moscow. Back in the 1980s, thanks to the connections of its founder, Mikhail Rudyak with Mayor Luzhkov, it obtained profitable orders for the construction on several underground parking lots, the Lefortovo Tunnel and Okhotny Ryad shopping complex at Manezh Square. The company has numerous costly contracts on account including a tender for the reconstruction of the Varshavskoye and Yaroslavskoye highways and the landing and take-off airstrips at Vnukovo, and also the building of several sections of the Moscow metro and the Atrium shopping mall, after which law-enforcement agencies opened a criminal case on suspicion of embezzlement of budget funds.

Bad math

The first appraisals of the cost of the construction of the Central Stadium appeared back in 2006 in a Russian Federation Decree №357 as of 8 June 2006 on the approval of the Sochi as an Alpine Climate Resort federal development program (2006-2014). The cost of the building of the stadium (including the design and survey work and the intrasite networks) was 1.635 billion rubles.

It is noteworthy that the Decree emphasized that all “calculations are made for the most expensive option, that any proposed changes...will not lead to the increase in the project as a whole”.

However, in late 2007, the program was cancelled by a new government decree in which any mentions of the cost of the Olympic facilities, including the Fisht stadium, were now missing.

How the process of reviewing the cost of the stadium proceeded further is not clear, but it is known that at the start of the construction in 2010, it was already estimated at 7.5 billion rubles. In August 2011, Leonid Monosov, vice president of Olimpstroy gave approval to increase the budget to 21.6 billion rubles. The Russian Accounts Chamber took an interest in why there was such a sharp hike in the cost of the facility, and their auditors conducted a thorough inspection and then discovered the evidence of the unjustified inflation of the construction budget. The exact cost of the stadium is not known, and according to figures from various sources, varies from 17.4 to 23 billion rubles.

According to the results of their work 22 June 2012, the Investigative Division in Sochi opened a criminal case on evidence of attempted embezzlement and misappropriation of Olimpstroy’s funds in the amount of 5.6 billion rubles through inflation of the cost of design and construction.
work.

However, to date, there is no information about the results of the investigation conducted. According to Olimpstroy's 2012 annual report, the amount allocated for building the stadium over two years (53% completed) was 13.3 billion rubles. Estimates of the total construction costs could reach as high as 23 billion rubles ($704 million), but even the lowest estimate of 17.4 billion would make the Fisht stadium 2.5 more costly than its equivalents.

### Cost comparison

<table>
<thead>
<tr>
<th>Name</th>
<th>Location</th>
<th>Start Date</th>
<th>Cost in 01/01/14 prices in millions</th>
<th>Number of seats</th>
<th>Price of one seat in 01/01/14 prices in thousands of dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fisht</td>
<td>Sochi</td>
<td>2014</td>
<td>532,8</td>
<td>40,000</td>
<td>13.3</td>
</tr>
<tr>
<td>Donbass</td>
<td>Donetsk</td>
<td>2009</td>
<td>437</td>
<td>51,504</td>
<td>8.4</td>
</tr>
<tr>
<td>St. Jacob Park</td>
<td>Basil</td>
<td>2001</td>
<td>302</td>
<td>38,512</td>
<td>7.8</td>
</tr>
<tr>
<td>Municipal stadium</td>
<td>Wroclaw</td>
<td>2011</td>
<td>255</td>
<td>42,771</td>
<td>6.0</td>
</tr>
<tr>
<td>Juventus Arena</td>
<td>Turin</td>
<td>2011</td>
<td>170</td>
<td>41,000</td>
<td>4.1</td>
</tr>
<tr>
<td>Rhine Energy</td>
<td>Cologne</td>
<td>2004</td>
<td>193</td>
<td>50,000</td>
<td>3.8</td>
</tr>
<tr>
<td>Jose Avalade</td>
<td>Lisbon</td>
<td>2003</td>
<td>175</td>
<td>50,049</td>
<td>3.5</td>
</tr>
<tr>
<td>Red Bull Arena</td>
<td>Leipzig</td>
<td>2004</td>
<td>149</td>
<td>44,345</td>
<td>3.3</td>
</tr>
</tbody>
</table>

### Violations during construction

On 11 November 2013, the Krasnodar Territory Court imposed fines on Ingeokom for non-compliance with the instructions of Rostekhnadzor [the state technical inspection agency] in the construction of the Fisht central stadium. As the court ruling indicated, for a long time during the construction of the facility the company “did not ensure compliance with the requirements of the Urban Construction Code and technical regulations”. That can be proved by the fact that the works were conducted according to design documentation which had not passed the State Expert Examination of Planning Documentation (without a positive expert opinion on the compliance of the design documentation with the requirements of technical regulations and the results of engineering surveys), which is a gross violation of urban building codes and can entail cause of harm to the life and health of people.

But Ingeokom did not draw any conclusions from the court decision, which led to tragedy within a few days – on 20 November 2013, a cable snapped that had been holding a basket of workers assembling the building. As a result one man died, and two were severely injured.

### Human rights violations

Human Rights Watch in its report on the exploitation of labor migrants during the preparation for the winter Olympic Games of 2014 describes the violations of workers’ rights at the Fisht central stadium. The workers said that they were promised their pay only after two months of work. If they were fired, the money would be lost.
Formula One Track

The track is officially considered by planners to be an Olympic venue, though it will not have any Olympic competitions on it. Inzhtransstroi Corporation is the general contractor and is owned by Arkady Rotenberg, who is a childhood friend and judo sparring partner of Putin. After earning a profit on the contract, Rotenberg sold his shares of Inzhtransstroi in late 2013. Over the next 7 years the state has budgeted $794 mn. to stage racing events, more than twice the cost of the track itself.

Description

The circuit (total length 5,848 m) has 11 right and 5 left turns, goes clockwise and bends around the Olympic stadiums at the Imeretinskaya Lowlands. Other parts of the venue are the spectator areas with capacities of 15,329 and 29,160, a motor race command centre, and a media centre among other items. To some extent, the construction of the racing circuit (in particular — grounds work) overlaps with general Olympic construction.

Putin’s aspirations

staging a Formula One motor race in Russia became an ambition of Vladimir Putin as long ago as his first presidency. He had plans to host a Grand Prix in St-Petersburg, and later a track known as Moscow Raceway was even built, but the dreams have thus far not panned out.

On October 14, 2010 in Sochi, Putin met Bernie Ecclestone, the de facto owner of Formula One. On the same day, and in his presence, Formula One and Tsentr Omega signed a contract to build a racing circuit for Grand Prix Russia, the latter company becoming the investor-in-charge. Putin commented that “the decision to host a Formula One Race is spurred by the necessity for effective and efficient use of Olympic sites after the Games”.

Funding and cost

governor Tkachev’s original estimate was $100 mn. Putin, at the same time, assessed the cost of construction as “several billion Rubles”. Any specific decision on the ways to finance the construction of the circuit was not made until a year after the triumphant signing of the contract. Eventually, the cost estimates settled on $30.6 mn, which was almost totally expected from the state budget. However, as was reported in the press, the Krasnodar Region failed to provide justification for this monetary estimate, and the Ministry of Economic Development and Ministry of finance did not authorize the expenditures for construction.

A way out was found after all. The racing complex was included under the section “Construction of Olympic Sites and Development of Sochi” (para 235 of the Program for Olympic Construction). Funds were allocated from Federal budget as grants for Krasnodar Region, and the regional administration used them to purchase shares of Tsentr Omega.

This financing scheme increased the opportunity to swell the budget for construction with minimal accountability. By the end of 2012, the amount went up almost by $61.2 mn to reach $241.6 mn. Tsentr Omega claimed that early estimates were “open-ended”. As of present, the official cost of construction is close to $367.0 mn. Aside from this sum, the racing complex will require significant maintenance funds from the Russian Government. The agreement between Tsentr Omega and Ecclestone is in force until 2020, and maintenance costs as well as royalties to Formula One World Championship Ltd. will amount to $110 mn. per year (increasing annually
The Anti-Corruption Foundation

39

per the contract). The remaining seven-years on the contract call for $800 mn. in supplementary spending, which is twice as much as the cost of the circuit as such.

It had been planned that the expenditure would partly be borne by private sponsors, but no clear agreements exist so far.

In February 2013 Putin again met Ecclestone in Sochi and both appeared pleased with the progress of construction. After this meeting, the Ministry of Finance extended a loan for $267.3 mn to Krasnodar Region "under the personal guarantee of Governor Tkachev".

Comparison to other similar Formula One circuits

The average cost of constructing a Formula One racing circuit is about $350 mn. A significant outlier is the Abu Dhabi track ($1.6 bn). However, it is difficult to draw an accurate correlation between costs in Sochi and Abu Dhabi — preparatory work, engineering complexity, and procurement challenges are significantly higher for the latter.

<table>
<thead>
<tr>
<th>Venue</th>
<th>Location</th>
<th>Opening year</th>
<th>Length, m</th>
<th>Total cost in 2013 prices,$ mn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Circuit in Olympic Park</td>
<td>Sochi, Russia</td>
<td>2014</td>
<td>5 872</td>
<td>396</td>
</tr>
<tr>
<td>Korea International Circuit</td>
<td>Yeongam, South Korea</td>
<td>2010</td>
<td>5 450</td>
<td>249</td>
</tr>
<tr>
<td>Istanbul Park</td>
<td>Istanbul, Turkey</td>
<td>2005</td>
<td>5 338</td>
<td>297</td>
</tr>
<tr>
<td>Jaypee Group Circuit</td>
<td>Greater Noida, India</td>
<td>2011</td>
<td>5 141</td>
<td>387</td>
</tr>
<tr>
<td>Circuit of The Americas</td>
<td>Austin, USA</td>
<td>2013</td>
<td>5 515</td>
<td>400</td>
</tr>
<tr>
<td>Yas Marina Circuit</td>
<td>Yas Island, Abu Dhabi</td>
<td>2009</td>
<td>5 554</td>
<td>1540</td>
</tr>
</tbody>
</table>

Contractors

All told, the drama surrounding this project — Putin’s whim, a doomed loss-making project, and dubious "personal guarantees" from Governor Tkachev — has led to exorbitant budget investments into Tsentr Omega, which is controlled by the Governor’s Administration. The company raises funds through the sale of its stock to Krasnodar Region. Purchases are approved by legislators of Krasnodar Region who overwhelming represent the ruling United Russia party.

The regional Administration announced the commencement of work on October 26th, 2011, meanwhile the project received approval from state environmental officials only on March 5th, 2012 — meaning that the first four months of construction were illegal.

Arkady Rotenberg, Putin’s confidant and judo sparring partner is in charge of making the racing dream come true. His firm Inzhtransstroy won the contract for building of the circuit in 2011.

The second contract — for building pit row, command facilities, the main spectator area, the medical centre, a helicopter landing site, and part of the circuit’s communications infrastructure — was signed with ZAO Stroy International in 2013. It won the project easily with a bid of $183.5 mn. — there were no other applicants.
Iceberg Skating Palace

Iceberg was built by Ingeokom, a major contractor under the control of Yury Luzhkov, the former mayor of Moscow, and known for projects like the Atrium and Okhotny Ryad shopping centres. When Ingeokom took charge of constructing the Sochi Ice Palace, it immediately increased the construction estimate five times. Olympic officials were unable to figure out the way Ingeokom spent this money even through court action, as the company did not submit its project documentation for two years. However, that did not stop the president of Olimpstroy from deeming this project successful: “Together we have achieved a result we can proudly present”, he said at the Iceberg’s inauguration ceremony.

Description

It is a skating palace which seats 12,000 people and houses a main ice rink with a training rink for figure skating and short-track competitions.

Cost comparison

In comparison with the similar ice palace for the Games in Turin, the cost per seat was inflated to 1,3 times.

<table>
<thead>
<tr>
<th>Name</th>
<th>Place</th>
<th>Year Opened</th>
<th>Total cost in 2013 prices, $ mn</th>
<th>Price per seat at 2013 prices, $ mn</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Iceberg Skating Palace</td>
<td>Sochi, Russia</td>
<td>2012</td>
<td>283.2</td>
<td>23.6</td>
</tr>
<tr>
<td>Torino Palasport Olimpico</td>
<td>Turin, Italy</td>
<td>2005</td>
<td>130.1</td>
<td>10.5</td>
</tr>
</tbody>
</table>

The magic of ancillary agreements

In 2006, the Russian Government passed a decree under which the cost of building of the Iceberg was estimated at $43.7 mn.

On April 9, 2009, the bidding to design and construct the skating palace was won by Ingeokom, owned by relatives of the late businessman Mikhail Rudyak, who held the post of advisor to former Moscow Mayor Yury Luzhkov. Mikhail Rudyak made his fortune building an extension of the Moscow subway (the line from Moscow City to Kievskaya) as well as large shopping malls (including The Atrium).

Upon winning the contract to building the Olympic palace, Ingeokom, in June 2012, concluded 12 ancillary agreements with Olimpstroy which increased the value of the project to $272.2 mn. Ancillary agreements are usually signed when new, unforeseen activities or expenses are required. That can be caused both by miscalculations in the original budget and substandard performance (as well as misappropriation of funds).

The final cost per seat exceeds the Turin benchmark by 130%, but the reason for such a dramatic difference is utterly inexplicable assuming fair play. For more than a year now, a suit by Olimpstroy against Ingeokom for missing the deadline for submission of design documentation has been wending its way through the Moscow City Arbitration Court. The amount claimed exceeds $2.1 mn.
Ice Cube Curling Centre

The arena was constructed by a little-known contractor, ISK Slavoblast. The company is controlled by the businessman Alexander Svishchev. His son, Dmitry, is a member of the Federal Duma and president of the Russian Curling Federation. “Ice Cube is a unique building having no analogues in the world”, — he said. Although Dmitry is satisfied with his father’s work, the Slavoblast partners are not. The company contractors are attempting to sue Slavoblast for $6.1 mn, claiming that they didn’t get paid for their work.

Description

A multi-purpose sports arena used for curling events. Seating capacity: 3,000. Four curling sheets are situated on the lower level while the upper level houses spectator seats.

Responsible contractor

The Ice Cube Curling Arena was built by ISK Slavoblast. No information on other projects can be found on their website. 80% of Slavoblast belongs to Alexander Svishev (either outright or in combination with his interest in other firms which have a stake in ISK Slavoblast).

There’s hardly any data on Alexander Svishev available. In contrast, his son Dmitry is a well-known person. Dmitry is a Liberal-Democrat State Duma deputy and president of the Russian Curling Federation, apparently the one and only business partnership of ISK Slavoblast.

Svishev the younger is the First Deputy Chairman of the Duma Committee for Physical Education, Sports and Youth Affairs. The Sochi Olympics have been one of the key focus areas of this committee over the recent years. His position has enabled him to influence legislation related to the Olympics in a most direct way. Specifically, he co-authored three bills on the Olympic Games and sports in the current, 6th, Duma.

Of course, the son was extremely happy with his father’s work. “Ice Cube is a unique venue, unmatched in the whole world”, — he said. Neither Svishev seems troubled by the exorbitant construction costs.

Costs and financing

The total project cost is estimated at $29.7 mn. The arena cost $10,000 per seat to construct.

Although formally a private investor, ISK Slavoblast did use state funding during construction. Two thirds of the Ice Cube’s construction budget were financed through [state-controlled] Vnesheconombank loans. In fall 2013, the bank classified these debts as “bad”, that is, they are not expected to be repaid. If these expectations prove correct, the losses will be covered from the federal budget.

Based on the arena’s budget of $29.7 mn and a Vnesheconombank loan of $20.2 mn, Slavoblast invested roughly $9.5 mn of its own funds into the arena. In spite of a generous support from the state, Slavoblast is far from being generous towards own subcontractors. One of them, NPO Mostovik, has filed suit against Slavoblast seeking $6.1 mn.

One cannot help but admire the entrepreneurial spirit of the Svishev family. A company belonging to the legislator’s father managed to build an ice arena in the centre of Sochi for only a third of its total cost, leaving the state and its contractors holding the bag for the rest. Yet more impressive is that unlike other key Olympic venues, the Ice Cube will remain the property of Svishevs after the Olympics.
Svishev jr.'s official annual income amounts to 60,000 dollars. His tax declaration has listed various luxury cars at different times, including a Bentley Continental, Infinity FX and Audi QX. Dmitry Svishev has never publicly commented on the inconsistency of his income and property.

The Ice Cube is not the only Svishev family project. Alexander Svishev has also established two other companies: Sportivnye Konstruktsii and the Sportivnaya Direktsya Novaya Liga non-profit partnership, both sharing an address with ISK Slavoblast. These companies are major government contractors in sporting-event-management.

Sportivnye Konstruktsii, for example, organized an exhibition at the Veduchi mountain ski resort in Chechnya and the Grand Prix de Russie tournament in Courchevel. Novaya Liga is holding a similar alpine skiing tournament this year, the 8th Millionaire Cup, and a World Curling Cup on the Red Square with the support of the Government of Moscow.
Laura Biathlon & Ski Complex

In 2000, Gazprom began work on an Alpine Tourist Centre in Sochi’s Krasnaya Polyana. Eventually the government would include this project in the Program for Olympic Construction, on the condition that Gazprom would build the Laura Skiing & Biathlon Complex. 200 hectares of pristine Sochi National Park forest were cut down. The only contractor for the project was a company called Rosinzhiniring, headed by Dmitry Novikov (formerly a ski instructor of Prime Minister Dmitry Medvedev).

Description

Gazprom began construction of the alpine ski resort in Krasnaya Polyana in 2000. After Sochi won the bid for the Olympics, Gazprom also pledged to build the Laura ski biathlon complex next to its Alpine Tourist Centre. Furthermore, under the construction program for Olympic buildings in the alpine cluster, Gazprom built an underground road to Laura, a village for 1,100 and two residences for official receptions.

Cost and financing of construction

In total, 89.7 million rubles were spent by Gazprom on buildings in Krasnaya Polyana. Gazprom expected to build Laura for 18.6 billion, but the significant expense of the underground road [31 bn. rubles], facilities for the disabled, and safety precautions had not been included in the first draft. Another 35.4 billion was spent on building the Alpine Tourist Centre at Esto-Sadok.

Ski instructor gets multi-billion contracts

The construction of all the facilities at Krasnaya Polyana was undertaken by a Gazprom subsidiary called Gazprom Sotsinvest. Dmitry Novikov is the president and founder of its only contractor - Rosinzhiring, Ltd. He also serves as a member of the presidium of the Russian Federation of Skiing and Snowboarding. Andrey Kostin, Chairman of the Board of Directors of VTB, is on the advisory board along with Gennady Timchenko, a judoka friend of Vladimir Putin. Rosinzhiniring’s website omits Novikov’s biography, though Forbes calls him a man who is well-known in the presidential administration having taught Dmitry Medvedev to ski.

Rosinzhiniring was one of the key contractors of Resorts of the Northern Caucasus, a firm created at the initiative of Medvedev that took part in building two main projects: the ski-jumping complex Russian Hills and the skiing complex Alpine Carousel. Ahmed Bilalov, Chairman of the Board of Directors of Resorts of the Northern Caucasus, was removed from his post and fired from the vice presidency of the Russian Olympic Committee after a scandal regarding cost-inflation with ski-jump construction. Furthermore, a criminal case was opened against Bilalov alleging abuse of office for wasting state funds on luxury trips abroad.

The in-crowd: Gazprom and the resort manager

After Gazprom’s Sochi construction was finished, its products were transferred to the management of Svod-International, Ltd. which belongs in parts to several other firms owned by a native of Jordan, Zyad Manasur. He heads up the holding company Stroygaz Consulting, one of the largest contractors for Gazprom’s construction. Forbes places Manasur in a respectable second place
in the number of Russian state contracts; only Arkady Rotenberg’s ventures boast more. Manasur is known for building a helicopter pad along with other buildings at Putin’s Gelendzhik Palace as a “present”.

**Gazprom and UNESCO heritage**

Gazprom began construction of Olympic buildings in 2008, though several had not received permits. One of the first sites was Refuge No. 1, which obtained approval of the state environmental body a year and a half after construction had begun.

In 2010, Gazprom contractors began building a road to the Olympic sites right through the Caucasus Preserve, designed a UNESCO Western Caucasus world natural heritage site. This grossly contradicted the recommendations not to perform construction works on the borders of protected sites made by the Centre for World Heritage back in 2008. Moreover, this placed Russia in breach of its obligations under the Convention to Preserve World Cultural and Natural Heritage.

Today, about 200 hectares of national park and Caucasus Preserve forest have been cut down, which has led to the disappearance of deer and bears inhabiting the area and to the reduction of the fish population.

The banks and bed of the Achipse River have been turned into a quarry. A similar situation is found at the Laura River on the border of the preserve and the national park. The preserve’s rivers have been turned into gutters – clogged with garbage. There are industrial warehouses on the banks of the river, as well as housing for the builders and parking lots for trucks, excavators and other construction equipment. The fish have disappeared from the rivers adjacent to Gazprom’s Olympic construction sites.
Mountain Carousel Complex

This is the most overtly scandalous construction project of the Olympics. The complex was built by Magomed Bilalov, the brother of Ahmed Bilalov, the vice president of the Russian Olympic Committee. The construction dragged on for two years and even President Putin publicly admitted that there were problems with the quality and pace of the construction. Ahmed Bilalov was fired from all his posts, and the Prosecutor General's Office officially announced that it had opened a criminal case against him for "abuse of office". Magomed Bilalov was charged as well. The Bilalov brothers subsequently fled abroad.

History of Krasnaya Polyana OAO

In 2001, the administration of Krasnodar Region and the City of Sochi founded the Krasnaya Polyana OAO with equal-part ownership. The purpose of this company was to build a year-round ski resort. They began construction in 2004 and in 2006 the resort saw the construction of its first ski-lift line.

In 2004, Krasnaya Polyana OAO was bought by Farhad Ahmedov, a Krasnodar Region deputy of the state Federation Council and a co-owner of Nortgaz. However, Ahmedov was not a shareholder for long: in 2006, off-shore companies controlled by the Bilalov brothers bought his stake.

At one point various off-shore companies controlled about 80% of Krasnaya Polyana OAO, while the stake of the administration of Krasnodar Region and Sochi gradually diminished — in 2007, the total was 17.59% and in 2013, Krasnodar's stake was down to 1.05%.

Bilalov brothers

In the Bilalov family, Magomed was responsible for the business projects and their development and his elder brother Ahmed for dialogue with the government. Much is known about the connection between Ahmed Bilalov and Governor Tkachev: Before 2000, Tkachev was a deputy from the Communist Party of the Russian Federation in the State Duma. It was there where Ahmed Bilalov first met him.

"I learned a lot from him, I think we need more governors like that," Bilalov would go on to say.

Bilalov and Tkachev found a common language — this was very visible in the development of Magomed's business in Krasnodar Region. In 2007, when Bilalov left the State Duma and became the vice speaker of the Krasnodar Legislative Assembly, his brother already possessed controlling stakes in regional utility companies: the independent utility Krasnodarteploenergo, the Southern gas company, Sochivodokanal, and others; he also owned two hotels in Sochi: the Moskva and the Olimpyskaya (in Dagomys). Bilalov is obliged to Tkachev for his part in Olympic history. He was the one who introduced the businessman to Leonid Tyagachev, President of the Olympic Committee.

In 2007 it became know that Russia would host the 2014 Winter Olympics Games and already by the end of the year Krasnaya Polyana OAO had become an investor in two Olympic facilities of note: the Olympic media village and ski jumps K-125 and K-95.

Cost and financing

The cost of these projects continuously increased as they were being built.

At first, the government invested $38.2 mn. in the construction, but by April 2010 costs had already risen to $58.1 mn.; by August 2011, they'd increased to $82.5 mn.; by November of 2011 to $119.2 mn.; and to $137.5 mn. by April 2012.
To finance the building of these facilities, Krasnaya Polyana OAO signed a September 2009 loan agreement with Vneshekonombank for the sum of $18.9 mn. The total loans from VEB constantly increased, and in December 2012, had reached an absurd $1.6 bn.

The terms of credit for Olympic construction contrasted sharply from market terms; the interest for loans pertaining to these projects was calculated on the basis of the interest for re-financing (8.25%) plus 1-2%. Krasnaya Polyana OAO has not yet begun to service this debt, and is slated to return the loan over the course of 10 years, beginning in 2016.

Altogether, state financing of the Mountain Carousel complex (which includes the Russian Hills ski-jump complex and the media village) reached $2.4 bn. All of this money was received from Sberbank (30%) and VEB (70%).

Construction quality

Despite the constant increases in cost, there were complaints about quality. Anatoly Ballo, chairman of the board of VEB, wrote to Dmitry Kozak, “There are faults in the concrete foundation, as a result of which cracks are forming; there are fissures in the construction; the metal elements have unprimed components, corrosion of the metal is occurring, and there are faults in the reinforcement and the geometry of the core components. A deformation in building-structure has also been found”.

Dismissal and flight

In early February 2013, Putin inspected the Russian Hills Olympic venue within the Mountain Carousel. During the visit, the president publicly criticized Bilalov for inflating the cost and for missing the deadlines. After this, Magomed was removed from the construction site, Ahmed was removed from all his posts, and the pair fled abroad.

The case against the Bilalovs

On April 10th, 2013, it became known that a criminal case had been opened against Ahmed Bilalov for “abuse of office”. Prior to 2013, Ahmed Bilalov had been the Chairman of the Board of Directors of Kurorty Severnogo Kavkaza [Resorts of the North Caucasus] and vice president of the Russian Olympic Committee.

The investigation established that Ahmed Bilalov generously spent company money on personal trips – the sum spent on chartered flights alone was $2.4 mn. In the United Arab Emirates, Bilalov used a helicopter to travel to the airport.

During the Summer Olympics in London, Bilalov spent more than $61,000 on hotel accommodations and transportation. The company’s reports indicate that leisure trips to Krasnodar, St. Petersburg, and Essentuki were also paid from the local budget.

On April 12th, two days after the announcement of the opening of the first criminal case, a second one was opened, now against Magomed. In this case, the Interior Ministry alleged that more than $30 mn. received from Sberbank was invested at a 4-7% rate of interest with NBRB, a bank where Magomed Bilalov served as chairman of the board of directors. Krasnaya Polyana OAO received loans from organizations controlled by NBRB, but at 12.5% annual interest. The revenue from these machinations was more than $1.4 mn.

Notably, such operations could not have occurred without the knowledge of Sberbank, whose representatives at that time were among the Krasnaya Polyana Board of Directors and voted for the signing of the loan agreements with NBRB. However, no public remonstrations against
Sberbank were forthcoming either from Putin or his Interior Ministry. Moreover, Stanislav Kuznetsov, appointed by Sberbank to chair the board of directors, still holds this post.

**Latest news**

After the flight of the Bilalovs, their 42% of shares in Krasnaya Polyana were bought up by entrepreneur Mikhail Gutseriev for $20 mn. According to estimates by the business newspaper Kommersant, the real value of those shares was at a minimum five times as much. Soon after, the shares were re-sold to Sberbank. Now, 92% of the shares are controlled by Sberbank, which plans to sell them “in the foreseeable future”.

Further, while Sberbank replaced the main sub-contractor with the Turkish company Sembol, the general contractor, the company Transkomstroy remains unchanged. Magomed Bilalov still holds a 25% stake in this firm.

Both Bilalovs presently live abroad, and their cases continue to be investigated. Stanislav Hatkevich, the former general director of Krasnaya Polyana, was arrested but accepted a plea bargain and was released to house arrest in exchange for cooperation with the investigation.

The Bilalovs may fall under the recently announced amnesty for non-violent offenders, however it is not clear if they are truly eligible.

**Ecology**

Construction of the first course began in 2006. This was entirely illegal as the project had not undergone a mandated environmental impact study.

That same year, Krasnaya Polyana OAO had conducted large-scale logging of more than 40 hectares on the slopes of the Aibr mountain ridge without conducting a state environmental impact study.

At the present time, according to satellite monitoring, the total area of destroyed forests and alpine meadows in the Sochi National Park amounts to more than one square kilometer. Construction has led to the disappearance of the brown bear and red deer. Meanwhile, the fish and wild boar populations have decreased significantly.
**Rosa Khutor Alpine Centre**

Rosa Khutor is one of the main Olympic venues, and was constructed in violation of numerous laws protecting the environment. The project was undertaken by billionaire Vladimir Potanin, one of the few private investors in the Sochi Olympics. However, it must be noted that 85 percent of his financing for the project was obtained in the form of a government loan. The billionaire doubts that he can repay this debt. In an interview with the Vedomosty business daily, he admitted that the project was unprofitable because "it's too large for the Sochi market". Today, Potanin is seeking partial compensation for his investment from the government.

**Description**

In July 2007, Sochi was selected as the host of the 2014 Winter Olympic Games and shortly thereafter, the Roza Khutor ski resort was posited as one of the central locations for the future Olympics. It includes three Olympic venues: a ski centre with 9 kilometers of ski tracks and a capacity of 7,500 people, an extreme park, consisting of a snowboard park for 6,250 people and free-style centre for 4,000, and also a 32-square hectare alpine Olympic Village consisting of 50 buildings for 2,600 team members. After the Olympics, the combined length of the ski trails will be 100 kilometers, and the alpine Olympic Village will be part of the resort.

**History of Roza Khutor**

According to Vladimir Potanin, the 7th wealthiest businessman in Russia, the idea to create the Roza Khutor resort was born during a conversation with Vladimir Putin in 2002, while they vacationed the ski slopes of Austria. Already in 2002, Interros was registered as "a company for development of an alpine ski resort Roza Khutor, the main purpose of which will be the creation of a ski resort in the region of Krasnaya Polyana". The required amount of investment was estimated at $290-336. The company was created by Cypriot off-shore corporations Interros International Investments, Ltd. and Belgund Investments, Ltd.

**Cost and financing**

After the IOC made the decision to place the free-style tracks and alpine Olympic village at Roza Khutor, Vneshekonombank provided a 24 bn. ruble loan for 15 years at 12% annual interest. Further loans from VEB brought the total at the end of 2013 to $2.2 bn., with the overall cost of the project rising to $2.6 bn. The rest of the money came from Interros's own funds and loans from Norilsk Nickel.

Furthermore, according to the Sochi as an Alpine Resort development program, the total cost of Olympic venues at Roza Khutor is $596 mn (the Extreme Park cost $36,7 mn.; the Ski Centre — $461,7 mn. and the Alpine Olympic Village cost $97.9 mn). Thus, the cost of the construction of these Olympic facilities rose 4.4 times over, from $596 mn. to $2.6 bn.

**No prospect of profitability**

In September 2013, Potanin declared the project "unprofitable". As reasons, he cited the lack of a sufficient number of vacationers for such a large resort, a large portion of the costs targeted exclusively toward the Olympics themselves (security, special areas for competitions).
and the impossibility of getting full-scale operation of the buildings before the end of the Olympic Games. Potanin is lobbying the government to forgive the interest on the $520 mn VEB loan for Roza Khutor, and to establish in Krasnaya Polyana a special economic zone.

However, despite the “lack of profitability”, Potanin plans to invest another $122 mn in Roza Khutor after the Olympics.

**Eco-resort: leopards and tourists**

In April 2005, Potanin announced that when Roza Khutor would be built, there would be “little geological engineering and no deforestation at all”. But a year later, when the first version of the project was presented at public hearings, it became clear that the territory of the future alpine complex was covered with thick forests, a substantial part of which would be cut down.

In 2007, Roza Khutor labeled itself “an eco-resort”, and signed an agreement with the Russian branch of the World Wildlife Fund (WWF) pledging to fund the project to restore the population of leopards in the Caucasus. Putin repeatedly came to visit the leopards and [in front of the cameras] took part in an expedition releasing them to the wild. Putin liked them so much that he supported the idea to pick the leopard as a mascot of the Sochi Olympics.

“We believe that tourists will like the thought of skiing in the immediate vicinity of wild leopards. We can only hope that the leopards will not behave aggressively and both will like such close proximity”, – Potanin said at the Economic Forum in Sochi in 2009.

However, the “eco-resort” never worked out — more than 250 hectares of natural forest and alpine meadows have now been completely destroyed on the territory of Roza Khutor, and work on the slopes of the Aibga ridge has led to constant landslides and mudflows, pollution of the Mzymta River, and the disappearance from the construction zone of several animal species.

In the spring of 2011, Rosprirodnadzor [The State Nature Inspectorate] inspected the construction of the snowboard park and the alpine Olympic village and found that the Roza Khutor contractors had illegally destroyed plants in the Red Book of Endangered Species on more than 20 hectares. In January 2013, Rosprirodnadzor discovered 50 trees chopped down “by unknown people” in a closed-off area of Roza Khutor.

The two largest Olympic sites — the alpine skiing complex for 18,000 visitors and the Extreme Centre (which includes a snowboard and free-style park) were built illegally, without an environmental study confirmed by an inspection of Rosprirodnadzor. The chair lifts were also built without the legally required inspection of design documents.
Sanki Sliding Centre

The venue was built by Mostovik, a company owned by Omsk businessman Oleg Shishov. Sanki is in a small minority among the typically over-budget Olympic construction projects that may spawn a criminal case. Although investigators believe the budget was artificially inflated by $76.5 mn., they have thus far neither brought the case to court nor revealed the suspects’ names. The venue turned out to be 1.6 times more expensive than any similar facility, but Mostovik’s spokesmen believe that the budget increase was “completely reasonable”.

Description

Sanki [Sleds] is a sliding track for Olympic bobsledding, luge, and skeleton competitions. The track is 1,814 meters long and the viewing area holds 9,000 people. The first international competitions were held in February 2013.

Who is building it

The state corporation Olimpstroy is the responsible executor. Mostovik was selected as the general contractor for the track construction. The capacity of the viewing stand was originally 11,000 and then it was reduced to 9,000.

The Omsk company Mostovik is a large Olympic builder. The total sum of Mostovik’s Olympic contracts amounts to $2.1 bn. Mostovik has regularly taken part in major construction projects in Russia; for example, this is the company that built the billion dollar bridge to Russky Island. Oleg Shishov, general director and the main proprietor of Mostovik is a United Russia deputy in the Omsk legislative assembly. Another shareholder, Vyacheslav Dvorakovsky, became mayor of Omsk in June 2012. Leonid Polezhayev, who served as governor of the Omsk region for 20 years, has called the company his brainchild. Unsurprisingly, Mostovik has received a large number of state contracts in the region including the Omsk Metro and the Krasnogor Hydrosystem.

Criminal case for cost inflation

In June 2012, investigators opened a criminal case based on evidence of conspiracy to artificially inflate the cost of the bobsled track by $76.5 mn. The general contractor had not yet received this money, but all the agreements had been signed. According to reports, the additional agreements between Mostovik and Olimpstroy were being approved by Leonid Monosov, vice president of the state corporation. Law-enforcement officials did not cite specific names, and officially there are no suspects in the case. In August 2012, the Interior Ministry argued that the investigation would not take long, but the case has not yet been brought to court.

Mostovik executives explain the inflation of the cost as resulting from mistakes in the initial draft. Supposedly, not all the requirements of the Olympic Committee were taken into account, and not all the relevant safety measures had been developed. The Ministry of Economic Development believes the main reason for the rise in cost is unnecessarily-expensive finishing. A 2006 Government decree stated the cost as $131,5 mn, but the final costs was $241,6 mn, i.e. the cost rose by a factor of 1.8.

| capacity | 9 000 seats |
| total cost: | $76.5 mn. |
| overpriced | 1.6 times |
**Cost inflation**

The average per-meter cost of other Olympic tracks is $81,000. The cost of one meter of the track in Sochi is 1.6 times higher. The sum attributable to artificial cost inflation (by comparison with other sliding complexes) is $91 million.

**Table 1. Comparison of Costs of Bobsled Tracks**

<table>
<thead>
<tr>
<th>Name of Arena</th>
<th>City</th>
<th>Year Opened</th>
<th>Length in meters</th>
<th>Cost of track in 2013, $ mn</th>
<th>Cost of track in 2013, $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sanki track</td>
<td>Sochi</td>
<td>2013</td>
<td>1814</td>
<td>240.0</td>
<td>132,300</td>
</tr>
<tr>
<td>Spiral</td>
<td>Nagano</td>
<td>1996</td>
<td>1360</td>
<td>100.8</td>
<td>74,300</td>
</tr>
<tr>
<td>Cezana Pariol</td>
<td>Turin</td>
<td>2005</td>
<td>1435</td>
<td>135.0</td>
<td>94,100</td>
</tr>
<tr>
<td>Whistler Sledding Centre</td>
<td>Vancouver</td>
<td>2008</td>
<td>1450</td>
<td>108.0</td>
<td>74,500</td>
</tr>
</tbody>
</table>

**Notes.**
1. The cost of each stadium is converted to dollars with inflation calculated at the time of opening (in 2013 prices).
2. The cost of track in Salt Lake City is not used as a basis for comparison because the track was first built in 1977, and then rebuilt, confounding the ultimate cost of the project.
Shayba Arena

This is one of the few Olympic venues built entirely using private funds – those of a Russian oligarch, Iskander Mahmudov, who has been winning Russian Railways [RZhD] contracts for over 10 years. Shayba is a social responsibility project for Mr. Mahmudov; however, he is actually responsible for dumping the maintenance costs on the government.

Further, Igor Nayvalt, the arena’s contractor, is the one who has really profited from this project. Back in the 1990’s, he was a regular business partner of “Tambov Gang” leaders. He was also acquainted with the founders of the Ozero co-operative society, whose shareholders were President Putin, Vladimir Yakunin [the head of the Russian Railways], and Andrey Fursenko, former Minister of Education. Unsurprisingly, Olimpstroy was satisfied with Nayvalt’s work despite the price tag.

Voluntarily compulsory investments

The Winter Olympic Games in Sochi have been a landmark project for Russia and Vladimir Putin personally from the very outset. UGMK-Holding supported the president’s wish and financed the construction of the Shayba Arena which cost $104.9 mn. Initially, Olimpstroy was responsible for the arena and the construction contract was awarded to the Chelyabinskoye Shakhtostrouitelnoye Predpryatye. Ignoring this small detail, a redundant contract with UGMK was signed.

The investor admitted that it did not expect profits from this project and just wanted to help organize the Olympics: “We do not consider this investment in usual terms of profitability and investment potential. For us, it is part of our commitment to social responsibility, being involved in Olympic Games, this landmark celebration which is of an utmost importance for our country”; — Sergey Yeripalov, UGMK-Holding’s vice-president for investments and development, told the press in 2010.

A 100-million-dollar present

After the construction was completed, UGMK-Holding donated the hockey arena to Olimpstroy. “Is Andrey Removich intending to donate the stadium to the government? You are free to do so”, — the President cryptically told Andrey Bokarev, member of the UGMK management board, during the facility inspection. “We will!”, — Bokarev replied. In fact, that’s the government who made a present to UGMK. Transporting the arena into another city, as it was originally planned, would set the owner back $20 mn with another million yearly required for operation and maintenance. The government did UGMK a favor and saved the company some post-Olympic trouble.

State procurement knows no pain

UGMK’s president and co-owner Iskander Mahmudov is a major government contractor. Over 70% of these contracts are in cooperation with Russian Railways, general partner of the Sochi Olympics. Russian Railways also owns a share in Transmashholding, co-owned by Mahmudov. Far from his claims of selflessness, the oligarch apparently agreed to invest into a non-profitable Olympic construction project to keep on receiving multi-billion state contracts.
UGMK-holding contracts Baltyskaya Stroitelnaya Kompaniya

Baltyskaya Stroitelnaya Kompaniya No. 48 (BSK 48) was chosen as the general contractor for the arena, although Olimpstroy had previously chosen the bid of Chelyabinskoye Shaktostroitelnoye Predpryatyje and the latter had even started working on this project.

The chairman of the board of executives and co-founder of the BSK Group, the parent company of BSK 48, is Igor Nayvalt, a businessman from St Petersburg. The company had previously constructed many different facilities, including the Lokomotiv Stadium and the Ladozhsky railway station. Early in the 2000s, BSK was thought to be affiliated with Nikolay Aksyonenko, Minister of Railways. After his resignation, BSK’s turnover declined but the company still remains a major market player, having recently completed the Vnukovo airport hotel and the 50-story Iset tower in Yekaterinburg.

Link to the Ozero Co-operative Society, Rossiya Bank and the head of the Tambov Gang

Nayvalt’s early life is also quite interesting. Back in the 90s, he was closely connected to the shareholders of Ozero co-operative society, including V. Putin and V. Yakunin. BSK-Sankt-Peterburg, the former parent company of the group, was established by Nayvalt, Viktor Myachin and the Rossiya bank. Both Myachin and Rossiya’s main shareholder Yuri Kovalchuk are shareholders of the Ozero co-operative society.

Nikolay Shamalov, another founder of Ozero, had once been Nayvalt’s neighbor in a house on the Kamenny Island. The current Head of the Presidential Property Management Department, Vladimir Kozhin, had also been a neighbor, as was Yelena Petrova, spouse of Gennady Petrov, head of the Tambov Gang. The Novaya Gazeta newspaper reports that Petrov had been Nayvalt’s first business partner in the 90s. In 2008, Petrov was arrested in Spain.

From December to May 2007, Mikhail Shelomov, Putin’s cousin, had been the co-owner of BSK-65, another division of Baltyskaya Stroitelnaya Kompaniya. Shelomov’s company Akzept had also owned shares in the Rossiya Bank.

Cost inflation as meal-ticket

UGMK-Holding did not earn anything on the construction of Sochi’s hockey stadium. We can estimate Nayvalt’s profits from this contract by comparing the cost of the arena with similar venues.

Shayba’s cost per seat? $14,700. The average per-seat cost for similar hockey stadiums? $10,000. (Sochi’s cost per seat is 50% higher). The inexplicable cost inflation compared to other hockey arenas? $33 mn.

Hockey arena price comparison

<table>
<thead>
<tr>
<th>Name of Arena</th>
<th>City</th>
<th>Year Opened</th>
<th>Seating capacity for hockey</th>
<th>Construction costs as of 2013, $ mn</th>
<th>Cost per seat as of 2013, $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shayba Ice Arena</td>
<td>Sochi</td>
<td>2012</td>
<td>7,000</td>
<td>103.0</td>
<td>14,700</td>
</tr>
<tr>
<td>Palacesport Olimpco</td>
<td>Turin</td>
<td>2005</td>
<td>12,000</td>
<td>162.0</td>
<td>13,800</td>
</tr>
<tr>
<td>Winter Sports Centre</td>
<td>Vancouver</td>
<td>2008</td>
<td>7,500</td>
<td>50.8</td>
<td>6,800</td>
</tr>
<tr>
<td>Union Hockey Centre</td>
<td>Pyeongchang</td>
<td>2016</td>
<td>10,000</td>
<td>78.0</td>
<td>7,800</td>
</tr>
<tr>
<td>Kwandon University Sports Arena</td>
<td>Pyeongchang</td>
<td>2017</td>
<td>6,000</td>
<td>65.4</td>
<td>10,900</td>
</tr>
</tbody>
</table>

Note. Venue costs were converted to USD and adjusted for inflation as of 2013.
Infrastructure

Adler-Krasnaya Polyana Road

This is the most expensive Olympic project, with construction costs comparable to the cost of the entire Vancouver Olympics. Vladimir Yakunin, CEO of Russian Railways (and an old Putin pal) is responsible for its construction. Russian Railways awarded two no-bid contracts. The first contract went to SK Most, owned by Vladimir Kostylev and Yevgeni Sur, builders of the Baikal-Amur Railway, and Gennadi Timchenko, another old friend of Vladimir Putin. The management of the second contractor, Transinzhstroy, also has close ties with Russian Railways and subcontracted some work to Mostotrest, owned by yet another friend of Putin, Arkady Rotenberg. The project ran 90% over budget.

Description

The Adler-Krasnaya Polyana transport link is the largest-scale Olympic project. It links the Imereti Lowlands, where the coastal cluster of sports stadiums are located, with the alpine resorts. The two-lane automobile highway and the single railroad track pass along a river, over numerous passes, bridges and tunnels. Furthermore, the project included the laying of a second railway from Sochi to the Olympic Park and construction and the reconstruction of four stations.

Cost and financing

The total cost of the entire construction was 285,4 billion rubles, or $8.6 billion dollars. Of this figure, 264,2 billion rubles went to the alpine stretch (that is, directly to Alpika Service), the route along the river to the resort (and the second Sochi-Adler-Vesyoloye railroad). In comparisions, the entire infrastructure and security spending for the Vancouver Olympics came to $9.2 billion, while the Games in Turin cost $4.1 billion.

The chief source of funding for the project is the federal budget – 241,1 billion rubles were allocated by the state as founding capital for the responsible executor of the project, Russian Railways. The remainder – 44,3 billion – come from the rail company’s own investment fund.

A treasure of a construction project for treasured friends

1. **Stroy-Trust, Russian Railways and a Friendly Bank**

One of the two main general contractors of the road construction is Stroy-Trust, one of the companies in the SK Most Group.

In 2011, this holding company took 8th place among state contractors with a contract for 90 billion rubles. Its best-known project aside from the Olympic highway, was a 23 billion ruble bridge to Russky Island built for the APEC summit. That contract was obtained without a bidding process thanks to a special decree by then-President Dmitry Medvedev.

Most’s largest shareholders Vladimir Kostylyov and Yevgeny Sur (37.5% each) are former builders of the Baikonur-Amur Highway; the sole other partner is billionaire Gennady Timchenko, a friend of Putin. Timchenko became the partner of the construction holding company only in 2012, but even before him the proprietors of Most had powerful allies. In 2008, Kostylyov and Sur, through Bamtonnelsstroi, a company in the SK Most group, bought 67.4% of Millennium Bank.
This bank has long, sturdy ties with Russian Railways. Natalya Yakunina, wife of the president of Russian Railways, joined the board of directors of Millennium Bank in 2004. Furthermore, Millennium is a partner of the tastefully named Centre for the National Glory of Russia (TsNSR) and the Apostle St. Andrew Foundation (FAP), whose board is chaired by Yakunin.

In recent years, the affiliation of Millennium and Russian Railways has only grown stronger. Russian Railways, through its subsidiaries, owns 33% of the shares of the bank, and the chairman of the board of the bank is Oleg Toni, the current vice president of Russian Railways. Furthermore, Russian Railways keeps available funds in deposit at Millennium (up to 50 billion rubles) and has signed an agreement to place payment terminals at 330 rail stations, a contract with slim precedent in their market.

2 **Transyuzhstoi, the Ozero Cooperative and Vice President of Russian Railways**

The secondary contractor for the Adler-Krasnaya Polyana transport-link is Transyuzhstoi, Ltd. The company is currently fully owned by a Cypriot off-shore firm, but according to the Unified State Registry of Legal Persons for 2009, the main owners of the company were Anatoly Antipov (65%) and Aleksandr Shevelev (15%). Shevelev is presently the general director of the company.

Antipov has long had ties with Oleg Toni, vice president of Russian Railways. They are both founders of Transstroybank, created with the participation of Rossiya Bank. The main shareholder of Rossiya Bank is Yury Kovalchuk, a billionaire and member of the Ozero Cooperative, along with Putin and Yakunin.

3 **Mostotrest, Rotenberg, and Pension Funds**

Transyuzhstoi’s subcontract for the first 15 kilometers of the transport-link is Mostotrest. The total cost of the contract is more than 17 billion rubles. The main owners of Mostotrest are the Cyprus-based off-shore Marko Polo Investments, Ltd. (38,6%) and Transfingrup (26,8%); the remaining 34,6% belongs to minority shareholders. Marko Polo is largely within the domain of Arkady and Igor Rotenberg. In his youth, Arkady Rotenberg was a judo sparring partner of Vladimir Putin, and they have maintained close ties. Starting in 2000 (not coincidentally the year of Putin’s installment to the Presidency), the Rotenbergs’ business took off; now they are dollar billionaires and the largest recipients of state contracts in Russia. Their firms are building a pipeline for Gazprom and roads all over Russia. As for Transfingrup, 39,8% of this company belongs to the Russian Railways pension fund Prosperity; it also manages its funds. Oleg Toni is a member of the board of directors of Mostotrest.

**Comparison with foreign equivalents**

For the sake of comparison, we look only at the alpine tract of the construction project; that is, the combined Adler-Krasnaya Polyana road, without the second spur from Sochi to the Olympic Park. We divide the complex route into five elements: the two-lane highway, the one-track railroad, bridges, tunnels and stations – and for each we find an analogue.
**Total Road Project**

<table>
<thead>
<tr>
<th>Total length in km</th>
<th>Railroad</th>
<th>Automobile Road</th>
</tr>
</thead>
<tbody>
<tr>
<td>48.2</td>
<td>45.6</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Road</th>
<th>One-Track with Two-Track Inserts</th>
<th>Two-Lane</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Number of Bridges and Overpasses</th>
<th>36 pieces</th>
<th>36 pieces</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Length of bridges and Overpasses</th>
<th>15.6 km</th>
<th>13.4 km</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Number of Tunnels</th>
<th>6 pieces</th>
<th>3 pieces</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Length of Tunnels</th>
<th>11.1 km</th>
<th>6.9 km</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Type of Road and Tunnel</th>
<th>One-track</th>
<th>Two-lane</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Length of road minus bridges and tunnels</th>
<th>21.5 km</th>
<th>25.3 km</th>
</tr>
</thead>
</table>

* Construction on the last two kilometers has not been included in the calculation since there is no information about it from the contractor.

1 **Automobile Road**

For the sake of argument, let us accept as accurate the Ministry of Transportation’s figures as to cost per kilometer. The values in the table are cited without VAT and without the cost of preparation of the area (purchase of land and homes, removal of lines.)

<table>
<thead>
<tr>
<th>Country</th>
<th>Average cost per km of traffic lane in millions of rubles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>123</td>
</tr>
<tr>
<td>France</td>
<td>101</td>
</tr>
<tr>
<td>Canada</td>
<td>82</td>
</tr>
<tr>
<td>US</td>
<td>72</td>
</tr>
<tr>
<td>Finland</td>
<td>41</td>
</tr>
<tr>
<td>China</td>
<td>35</td>
</tr>
</tbody>
</table>

The average value taking into account a VAT of 18% for a two-lane road is 180 million rubles/km. The cost of the preparation of the ground on average is 10-40% of the cost of the strip. We will take 15%, since in this case houses did not have to be removed and lines did not have to be moved. As a result, we get the cost of 25.3 kilometers as 5.2 billion rubles or $159 million.

2 **Railroad**

As an equivalent, we use high-speed rail lines, although the Sochi track will have a speed of only 160/km/hr, and the standard for high-speed rails is 300 km/hr.

<table>
<thead>
<tr>
<th>Country</th>
<th>Average cost per km in millions of dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>32.0</td>
</tr>
<tr>
<td>US</td>
<td>38.6</td>
</tr>
<tr>
<td>China</td>
<td>19.3</td>
</tr>
</tbody>
</table>

The average cost of per km of a high-speed rail is $30 million. The total cost of the railroad line 21.5 km in length is **$645 million**.
3 Bridges and Overpasses

<table>
<thead>
<tr>
<th>Name</th>
<th>Country</th>
<th>Year Opened</th>
<th>Length km</th>
<th>Total cost in millions of dollars, 2013</th>
<th>Cost per km in millions of dollars, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rugen Bridge</td>
<td>Germany</td>
<td>2007</td>
<td>2.8</td>
<td>148</td>
<td>51.8</td>
</tr>
<tr>
<td>Bayside Bridge</td>
<td>USA</td>
<td>1993</td>
<td>4.3</td>
<td>115</td>
<td>26.7</td>
</tr>
<tr>
<td>Second North Bridge</td>
<td>Great Britain</td>
<td>1996</td>
<td>5.1</td>
<td>758</td>
<td>149.0</td>
</tr>
<tr>
<td>Rosario-Victoria Bridge</td>
<td>Argentina</td>
<td>2003</td>
<td>12.2</td>
<td>617</td>
<td>50.6</td>
</tr>
</tbody>
</table>

Average cost per kilometer of bridge is $67.1 million. The total cost of 29 km of bridge is $2.0 billion.

4 Tunnels

Cost of Railroad Tunnels

<table>
<thead>
<tr>
<th>Name</th>
<th>Country</th>
<th>Year Opened</th>
<th>Length km</th>
<th>Total cost in millions of dollars, 2013</th>
<th>Cost of 1 km in million$ millions, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wienerwald Tunnel</td>
<td>Austria</td>
<td>2009</td>
<td>13.4</td>
<td>494</td>
<td>36.9</td>
</tr>
<tr>
<td>Lötschberg Base Tunnel</td>
<td>Switzerland</td>
<td>2007</td>
<td>34.6</td>
<td>4700</td>
<td>135.8</td>
</tr>
<tr>
<td>Wushaoling Tunnel</td>
<td>China</td>
<td>2007</td>
<td>21.0</td>
<td>1377</td>
<td>65.6</td>
</tr>
<tr>
<td>Abdalajis Tunnel</td>
<td>Spain</td>
<td>2007</td>
<td>7.0</td>
<td>282</td>
<td>40.3</td>
</tr>
</tbody>
</table>

The average cost of railroad tunnel is $90.2 million per kilometer. The cost of the whole portion of rail tunnels for a 11.1 length of road is $1.0 billion.

Cost of Automobile Road Tunnels

<table>
<thead>
<tr>
<th>Name</th>
<th>Country</th>
<th>Year Opened</th>
<th>Length per km</th>
<th>Total cost in $ millions, 2013</th>
<th>Cost per km in $ millions, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baregg Tunnel</td>
<td>Switzerland</td>
<td>2004</td>
<td>3,3*</td>
<td>401</td>
<td>121.5</td>
</tr>
<tr>
<td>Zhongnanshan Tunnel</td>
<td>China</td>
<td>2007</td>
<td>18.0</td>
<td>638</td>
<td>35.4</td>
</tr>
<tr>
<td>Deschlberg Tunnel</td>
<td>Germany</td>
<td>2011</td>
<td>0.75</td>
<td>31.4</td>
<td>41.9</td>
</tr>
<tr>
<td>Somport Tunnel</td>
<td>France/Spain</td>
<td>2003</td>
<td>8.6</td>
<td>418</td>
<td>48.6</td>
</tr>
</tbody>
</table>

* Length is taken from the calculation that the tunnel complex has three section of 1.1 km each

The average cost of the road tunnels is $48.6 million per kilometer. The cost of the whole area of auto tunnels at a length of 6.9 km is $335 million.

5 Cost of the railroad station Esto-Sadok and Alpika-Service (Krasnaya Polyana)

It is fairly difficult to calculate the separate cost of the rail stations (terminals) of the combined road since Russian Railways and Olimpstroy have not provided a detailed budget. Therefore we will take a generous estimate of the cost – 500 million rubles for one station. For reference, a new station in Bratsk cost 375 million rubles.
The total cost of two terminals is 1 billion rubles or $30 million.

The total cost of the equivalent of the whole transport-link is made up of the costs of structures analogous to each of its parts and is as follows: $159 + $645 + $2,000 + $1,000 + $335 + $30 = $4.2 billion.

The total cost of the construction in the mountain area is 264.2 billion rubles or $8 billion dollars. According to our calculations, the cost of the road has thus been inflated 90%. Unfortunately, due to the sketchiness of the figures provided this can only be an approximation. Nonetheless, it seems to fit near the centre of the simpler estimates of cost inflation that we have drawn for other venues.

**Deadlines and road openings**

At first, the opening of the road was scheduled for April 2013. Russian Railways representatives repeatedly said that everything would be built exactly on time. For example, in May 2010, Vladimir Yakunin, head of Russian Railways, said that they were even “ahead of schedule.”

In 2012, Yevgeny Solntsev, head of the Sochi Directorate for Capital Repairs and Construction once again reiterated that there were no delays on the schedule in the first quarter of 2013. But Russian Railways was not able to keep its promise. The transport-link was opened to traffic only at the end of November 2013.

**Environmental damage**

The construction of the combined Adler-Krasnaya Polyana road was accompanied by numerous violations of environmental protection legislation and caused major ecological damage.

Many parts of the road were built without government environmental studies, and a final study is still not available. Gravel was taken illegally from the River Mzymta, along which the road runs, and this led to a destruction of natural landscapes and an increase in the risk of flooding and beach erosion. Furthermore, due to run-off from construction, the river was covered with white foam several times, and its fish died in large numbers.

Russian Railways illegally cut down trees in the Sochi National Park which were in the Red Book of Endangered Species. New trees were planted as a compensatory measures, but a significant number of them died. In the outskirts of the village Akhshtyr, builders made a huge construction waste dump, to which trucks ran along the only street of the town, day and night. Due to the construction, the village's wells dried up, and its residence have been choking on dust and exhaust fumes for five years.

For further information on the environmental damage caused by the construction of this road, read here (reference).

**After the Olympics**

Officials explain that the multi-billion dollar expenditure is an investment in Sochi’s wanting infrastructure. However, the combined road is for the Olympics, and its features will be in demand only during the Olympics. The road can handle 20,000 people per hour, but the maximum capacity of all the alpine resorts per day is no more than 30,500 (for Roza Khutor, it is 10,500 and for Gazprom Alpine Skiing Complex, 8,000; for Alpine Carousel it is 12,000). Furthermore, there is a second highway, A-148. Thus, Russian Railroads has built a road for the Olympics for $8.6 billion, and it is fair to consider these as a primarily Olympic expenditure.
**Adler CHP plant**

The Adler CHP plant was meant to solve electricity supply issues in the city. Gazprom acted as the main investor and contracted TEK Mosenergo, controlled by Arkadiy Rotenberg, an old friend of Vladimir Putin. Prime Minister Medvedev declared at the plant opening in January 2013 that blackouts would become a thing of the past from now on. A year has passed but electricity supply is still an issue in Sochi: power cuts are a routine practice.

**Description**

The Adler CHP plant is designed to supply Olympic venues and the whole Sochi with electricity. It is supposed to cover over a third of the peak load during the Games. The plant has a 360 MW installed capacity and operates two combined-cycle power units. After the Olympics, the plant will be supplying heat to the Blinova neighborhood in Sochi.

**Construction costs, investor and project owner**

According to information from Vnesheconombank, the total construction cost of the Adler CHP plant is $856 mn. However, the investors’ annual report states the construction cost of $703 mn. The total line of credit approved by Vnesheconombank to Gazprom is $595 mn and $556 mn out of them is provided to investor as at September 30, 2013. According to information from Gazprom report, at the end of 2012 the provided amount was $446 mn. At that moment the construction was finished and in January next year the opening ceremony took place. The rationale for provision of additional $107 mn is not known.

Gazprom is the project investor, with ZAO “Mezhregion Energostrой” being the technical customer. The agency contract value is not known.

The latter is co-owned by Korporatsiya Gazenergoprom, which in turn belongs to a British Virgin Islands-based offshore, OAO “Transsignalstroy”, and Sergey Beloborodov. Transsignalstroy was founded by the Moscow Property Management Committee; Sergey Beloborodov is an ex-CEO of Gazenergoprom. Previously, he had been the deputy director of the same company, then headed by Yevgeniy Malov. Before 2003, Malov had been a partner of an oil trading business, later to become Gunvor, together with Gennadiy Timchenko, billionaire and friend of Putin. Besides, Malov directly owned 6.4% of Rossiya Bank shares starting from 2003.

OAO “TEK Mosenergo” acts as the general contractor for the CHP plant. The contract amounts to $663 mn. TEK Mosenergo is controlled by the billionaire Arkadiy Rotenberg, although it formally belongs to a Cyprus-based offshore. Igor Rotenberg, Arkadiy’s son, is the chairman of TEK Mosenergo’s board. In 2010, the Rotenberg brothers bought TEK Mosenergo from Gazprom and the Government of Moscow.
### Comparison of costs

<table>
<thead>
<tr>
<th>Year opened</th>
<th>Total cost without VAT ($ mn)</th>
<th>Total capacity (MW)</th>
<th>Total adjusted* cost without VAT ($ mn)</th>
<th>Cost per 1 MW ($ mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mid-Urals GRES</strong></td>
<td>2011</td>
<td>477</td>
<td>410</td>
<td>391</td>
</tr>
<tr>
<td><strong>Nevinnomyssk GRES</strong></td>
<td>2011</td>
<td>532</td>
<td>410</td>
<td>489</td>
</tr>
<tr>
<td><strong>Surgut 2 GRES</strong></td>
<td>2011</td>
<td>871</td>
<td>797</td>
<td>669</td>
</tr>
<tr>
<td><strong>Shatura GRES</strong></td>
<td>2010</td>
<td>458</td>
<td>400</td>
<td>397</td>
</tr>
<tr>
<td><strong>Yaiva GRES</strong></td>
<td>2011</td>
<td>495</td>
<td>425</td>
<td>403</td>
</tr>
<tr>
<td><strong>Adler CHP plant (investor data)</strong></td>
<td>2013</td>
<td>596</td>
<td>360</td>
<td>458</td>
</tr>
<tr>
<td><strong>Adler CHP plant (VEB data)</strong></td>
<td>2013</td>
<td>724</td>
<td>360</td>
<td>562</td>
</tr>
</tbody>
</table>

* total adjusted cost includes adjustments on climate and seismic construction conditions, time value of money and dry cooling tower unique for Adler CHP plant.
** data taken from IFRS financial statements and annual reports of OGK-4 and OGK-5

Average cost per MW: $0.96 mn. A megawatt at the Adler CHP plant costs 1.3 times as more as in similar projects (1.6 times more when VEB data is used).

### Black-outs

The Adler CHP plant was designed to supply Olympic venues with power and to improve the overall energy situation. Prime Minister Medvedev told at the CHP plant inauguration that the Games will relieve Sochi from blackouts once and forever. However, in January 2014, a year after the plant started operation, blackouts were still commonplace. Sochi residents even addressed the Investigative Committee demanding to open a criminal investigation against the city administration and employees of Kubanenergo, the company supplying power and maintaining the networks. Local journalists say that power outages in the city occur when test competitions are being held at Olympic venues, because the capacity is not enough to support both infrastructures.

President Putin told the press in February 2013 that “residents of Sochi would finally forget about chronic blackouts in winter”. A month after, Kubanenergo’s CEO resigned, but a newly-hired manager was also unable to change the situation for the better. Power outages in the Winter Olympics capital continue.
Airport

Expanding Sochi International Airport was the responsibility of a company owned by the billionaire Oleg Deripaska. In total, he spent $250.8 mn. of his personal funds on reconstruction, $223.2 mn. of which he raised through a Vnesheconombank (VEB) loan. The other costs were covered directly by the state. There were two official openings of the terminal. It was opened for the first time three years before the end of its reconstruction for IOC inspectors. The Government of Krasnodar Krai staged a performance to convince the guests that they had a functioning terminal in front of them. Actors in the “live show” were Sochi residents and schoolchildren dressed in Olympic uniform. The day was announced a holiday specifically for that reason. The real opening of the airport happened in 2010.

Airport history

The airport in Sochi was opened in the early 1960s. In October 1989, the Slovenian firm SCT-International began building a new terminal. By the end of 1991, the work was about 90% complete, but the overall expenditures had exceeded $110 million. Much of the equipment had been assembled and lay in warehouses, but with the fall of the USSR the financing ceased and the work was halted. Since 1994, the shell of a new building has stood abandoned, and only the neighboring terminal received visitors.

In May 2006, President Putin removed the Sochi Airport from the list of strategic facilities. Within a few months, Rosaviatsya [Russian Aviation] announced a tender to renovate the infrastructure of the airport and terminal complex and began preparation of the airport buildings for privatization.

On 20 November 2006, the company Strategya Yug, controlled by Oleg Deripaska, purchased the Sochi airport for 5.5 billion rubles.

The bidding had opened at 3.5 billion rubles; companies connected to the Vnukovo Airport and the billionaire Viktor Vekselberg had also taken part. Upon winning this auction, Deripaska came to control all the major airports of the Krasnodar Region.

What is more, the government pledged to fully reconstruct the entire airport at its own expense.

Cost of construction

preparation of the Sochi airport for the Olympic Games included: reconstruction of the airfield with an extension of the landing strips, renovation of the abandoned air terminal, and a technical upgrade of the traffic control system. The total cost of all work was 23.4 billion rubles.

1 Reconstruction of the Airfield

Repair of the landing strip and other airport infrastructure was conducted at the government's expense. The responsible government organ was the Federal State Unitary Enterprise Administration of Civil Air Fields.

The main contractors were Transstroymekhanizatsya and Inzhtrasstroy, Ltd. They budget the planned six years of work at 14.2 billion rubles. The state procurement agency organized the bidding process for a 9.8 billion ruble contract (figures for purchases before 200 are not available).
2 **New Air Terminal**

Mezhdunarodny Aeroport Sochi, a specially created firm affiliated with Oleg Deripaska's holding company Bazovy Element (Bazel) was responsible for reconstruction of the Terminal itself. The total investment amounted to 8,2 billion rubles, of which 7,3 billion rubles were from a VEB loan.

3 **Air Traffic Control Complex**

The budget for the physical and technological update of the air-traffic control complex for the Sochi airport was 966 million rubles, of which 743 came from the state budget.

**Main contractors**

In April 2008, the Austrian company Strabag won the tender to restore the buildings of the Sochi airport. The winner and another participant in the bid were affiliated with Oleg Deripaska, whose company was an investor in the job. Bazovy Element holds 30% of Strabag and also 50% of the shares of the second participant – Transstroy – which is in Deripaska's construction holding company. The cost of the contract was valued at 60 million euro (2,7 billion rubles).

Yet another contractor was the Serbian company Putevi Uzhitse.

The largest contractor for the reconstruction of the Sochi airfield was Transstroymekhanizatsya, whose contracts summed to 5,3 billion rubles (since 2007). In second place was Inzhtransstroy with 4,3 billion rubles (since 2007).

Inzhtransstroy was founded in 2007 by Efim Basin, the former Minister of Construction. Basin was also founder of Transstroymekhanizatsya. In June 2010, the controlling shares of this company were bought by Mostotrest, controlled by the Rotenberg brothers.

Arkady Rotenberg is a friend of Putin and his former sparring partner in judo. From the early 2000s, the Rotenbergs became dollar billionaires and major recipients of state contracts; their firms build pipelines for Gazprom and roads all over Russia. Inzhtransstroii is one of the major recipients of state contracts, with more than 96 billion rubles in contracts. Among the construction projects are air fields, roads, bridges. In February 2013, Rotenberg withdrew his capital from Inzhtransstroy in favor of a larger share in Transstroymekhanizatsya. It is possible that this move is connected with the billionaire's wish to avoid an audit buildings that Inzhtransstroy constructed.

Since 2012, Bazel Aero has been managing the airport. Its founders were Bazel, Sberbank and the Singaporean company Changi Airoports International. Deripaska's holds 50% + 1 shares of the company; the Singaporeans' share is 30% and Sberbank has 20%-1 share.

**Construction deadlines**

In October 2006, then-mayor of Sochi Viktor Kolodyazhny set the goal of opening the airport by mid-February 2007. A. Bliznyukov, general director of Aeroport Sochi promised to have the first stage ready by February 15th, and have a full opening in the fall of 2007. Douglas Land, head of the construction sector of Bazel, had a more realistic outlook – the end of 2008. But the terminal opened only on September 16th, 2010, three-and-a-half years late.

In June 2011, it became known that Olimpstroy was demanding the construction of a complementary VIP airport terminal. The investors finally agreed to construct a new building, and the general director of Bazel Aero, the operator of the airport, promised to finish it by early 2013. However, the VIP terminal opened only on 10 December 2013, two months before the beginning of the Olympics.
Potemkin airport

Viktor Kolodyazhny, mayor of Sochi had good reason to demand the completion of at least the first stage of reconstruction by mid-February 2007. The evaluation commission of the IOC was to arrive in February 18th. A way out was found – the authorities organized a false opening of the terminal. The plane on which the evaluation commission had flown was the only one received at the airport. The city administration tried to create the appearance of a functioning terminal, re-painting a decommissioned TU-154, but they didn’t manage to get it to the runway – the plane wouldn’t budge from its spot. According to local residents’ accounts, the bureaucrats brought in teachers and other state employees on an emergency basis and asked them to come to the airport with suitcases and create “the appearance of life” in the still-closed airport. The IOC representatives left the airport convinced that they had come to a real terminal, whereas in reality, it would remain non-functional for three more years.

Flood

In September 2013, due to heavy rain, the international arrivals area of the Sochi Airport flooded. By evening, according to Bazel Aero’s press service, the terminal returned to operation. The airport owners promised to build an additional drainage system to prevent a reoccurrence.
Azimut Hotel

Viktor Vekselberg’s company was assigned to build only one building, a 3,600-room hotel. Vekselberg obtained 92% of the construction funds from the state-owned Vneshekonombank (VEB). The bank later declared the loan as bad debt and the project itself as a loss at an operating level. Despite that, it seems that the government is willing to help Vekselberg. In August, during a pre-Olympic inspection held together with the oligarch, Prime Minister Dmitri Medvedev announced that hardworking companies deserve “special attention” from state banks.

Description

The hotel complex consists of two hotels: a four-star hotel with 720 rooms and a three-star hotel with 2,880 rooms located in the Imereti Lowlands not far from the coastal cluster of sporting venues. They are intended for journalists and partners of the Games.

Hotel changes owners

The Imereti Lowlands hotel complex appeared in the list of Olympic buildings in March 2010. It was planned to consist of 5,500 rooms. The investor at first was not indicated in the government decree, but the AST company owned by Telman Ismailov began construction on the complex. Due to the Cherkiz Market scandal, precipitated by Ismailov’s business partner’s firm construction was transferred to a company called Top Project. And the number of rooms fell to 3,600.

Cost and funding

The total cost of construction of the hotel was 15.6 billion rubles. The chief investor, Top Project, Ltd. belonged to a Cypriot off-shore company called Blosscrown Investments, Ltd. It is controlled by the Kortos group of companies (previously called Renova-StroyGrupp) owned by Viktor Vekselberg. Project funding is mostly supported by a VEB loan of 14.37 billion rubles, that is, 92% of the project cost; Olimpstroy guaranteed the loan.

Deadlines under threat

The hotel complex was originally supposed to be completed by June 2013. Then, V. Golubitsky, president of Renova-StroyGrupp pushed back this deadline to September. Ultimately, the hotels opened on December 6th.

Previously, in February 2013, the state commission overseeing Olympic Games headed by Vice Premier Dmitry Kozak had noted Top Project was failing to meet deadlines. The company was forced to sign a special agreement with Olimpstroy obliging it to pay the state up to 2 million rubles for each day the project was late. Moreover, under a second part of the agreement, the investor was obliged to cover the money which had been lost in putting in the roads and utility lines to the building.

Will Olimpstroy demand Renova pay the penalty for opening the hotel three months late? It has not as yet.
“Bad” loan

in November 2013, VEB declared Top Project’s loan as “bad”, and the project itself to be a loss at the operational level.

Despite this fact, the bank and the government will apparently continue to help Vekselberg. In August, during a review of the Olympic facilities conducted with the oligarch, Prime Minister Dmitry Medvedev made a point of noting that those who do good work can expect “an attentive relationship” with VEB.

On December 16th, 2013, at a meeting where the head of state was present, project investors were given permission to defer servicing their VEB loans until 2016. Within three days, the bank announced that Top Project would additionally receive 2 billion rubles in VAT remittance.

Notwithstanding what appears to be a troubled (or failed) project, it looks like the government and the VEB intend to continue helping the oligarch and the firms under his control.

After the Olympics

After completion of the Games, the investor intends to market the hotel to tourists. Towards this end, Top Project concluded an agreement with a leading hotel operators, Azimut Hotels, in 2013. The Azimut chain belongs to businessman Aleksandr Klychin, who in 2012 became the owner of the Moscow Metropol Hotel off of Red Square. He bought the hotel at a private auction for 8,8 billion rubles, though its market price was valued far higher. Despite the partnership with an experienced operator, future occupancy in Sochi’s hotels, and the return of the loan to the state bank, VEB, is in question. The problem is that after the Olympics, there will be a large number of varied hotel spaces at the resort and other real estate. In the possible if not probable event that the loan is not returned, the costs will be compensated at the expense of the federal budget.
International Olympic University

This unusual University has focused on training Olimpstroy and Sochi municipal employees to facilitate the Olympics, offering a Master’s degree in Sports Administration. The primary investor for this project is Interros, owned by Vladimir Potanin. 90% of financing was provided by a loan from state-owned bank VEB. Aside from the University, the money went into building three luxury hotels (a 4-star and a 5-star hotel, and an extended-stay hotel) in Sochi’s historical quarter. VEB doubts that the billionaire will be able to repay this loan and already classified this loan as potentially bad.

Description

The Olympic University consists of four 15- and 16-story buildings placed at the cardinal directions. An 1,108-seat conference hall is situated in the middle. The total area of all facilities exceeds 140,000 square meters.

The university offers sporting-related courses, its main course of study being the Master of Sport Administration (MSA). Up to 2,000 students graduate from IOU every year.

History of the university

A promise to create the world’s first International Olympic University was included in Sochi’s bid presented in Guatemala in 2007 and this institution was included in the Olympic Construction Program. The university was founded on October 21st, 2009 and the ground-breaking ceremony was held in June 2010 with the participation of V. Putin, then the Prime Minister, and Jacques Rogge, President of the International Olympic Committee. Putin even laid a time capsule into the foundation of the future university. The construction was overdue by a year.

The IOU welcomed its first students on September 16th, 2013, also in the presence of now-President V. Putin, who chairs the University’s board of trustees. The Russian International Olympic University is a non-profit company established by the Russian Olympic Committee, the Ministry of Sport of the Russian Federation, the Sochi 2014 Organizing Committee, and Kholdingovaya Kompaniya Interros.

Hotels are more important than students

For all Putin’s platitudes about the university’s significance, only one of the four towers is used as an academic building; the other three house hotels and restaurants. The four-star Mercure has 200 rooms and the neighboring five-star Pullman Sochi Centre has 150 rooms. An apartment hotel for students and guests of the University is situated nearby.

The four buildings share a common design and are all mistakenly thought to be parts of the University. It was known that most of the buildings would be used for luxury hotels before construction commenced.

Costs, investors and contractors

The Interros group, belonging to oligarch Vladimir Potanin, invested in the construction of the campus. In 2010, Potanin estimated construction costs at 15.5 bn. rubles ($500 mn.), including 4.7 bn. of Interros capital and 10.8 bn. loaned by Sberbank. The final cost was a bit lower
and totaled 13.8 bln rubles, but the ratio of loan capital ultimately amounted to 90% or 12.4 bn. rubles. Interros received these funds from Vneshekonombank, not Sberbank. The bank has already classified this loan as “bad”, and there is little chance to repay the expenditures even taking future hotel use into account: Sochi is certain to face a severe oversupply of both hotel rooms and office space after the Olympics.

The construction was coordinated by University Plaza OOO, which is owned by Profestate, in turn affiliated with Potanin’s Interros. The general contractor was Stroyprofi Yug, a company owned jointly by two British Virgin Islands-based offshores through several other companies.

The CEO of University Plaza OOO is Ivan Moskvin-Tarhanov, son of Mihail Moskvin-Tarhanov, a Moscow Duma Deputy from the ruling United Russia party. Mihail Moskvin-Tarhanov has been a deputy for over 20 years now, and is the chairman of the Urban Planning Committee. After construction was finished, University Plaza OOO assumed operation of the hotels.

Environmental and urban impact

The Olympic University campus is situated in Sochi’s historic quarter and replaces the former Maurice Thorez Health Resort. This sparked ire among Sochi residents during public hearings, but the citizens were able to achieve only minimal changes: a pine forest was saved, but the project’s location remained unchanged. Several Sochi-based architects petitioned A.V. Bokov, president of the Architects’ Union, with a request to relocate the university from the historic city centre. All these requests were ignored. A five-star hotel situated in a building called “University” is a simple explanation for why the investors wanted to keep their facility in the city centre.
Imereti Port

The port was constructed by Oleg Deripaska’s Bazovy Element. Olimpstroy assumed this port would be the main sea hub for construction supplies, but this proved not to be the case. Only 3 million tons cargo instead of a planned 16 million were handled in the port during preparations for the Olympics. Bazovy Element subsequently sued Olimpstroy for $97.9 mn in lost profits, pointing out mistakes in estimates and calculations, but this claim was dismissed in court. Today, Bazovy Element is attempting to arrange a new loan with state-owned Vneshekonombank to convert the port into a marina for yachts.

Description and background information

The decision to build a port was made in 2007. A government decree issued in that year listed Imereti Port among other facilities to be constructed for the Olympics. The responsibility for construction fell to Sochi Imeretinsky Port Ltd., owned by Oleg Deripaska’s holding company Basic Element. Transstroy, a firm also affiliated with Deripaska, was selected as the main contractor. Basic Element was involved in building the port infrastructure, spending six billion rubles. Hydrotechnical utilities built for the port were financed directly out of the state coffers, however – Deripaska’s company was not responsible for that part of the project.

Expensive and useless

The seaport was built largely to deliver construction materials for the Olympic construction program. Olimpstroy and the Olympic Games Transport Directorate estimated that 16 to 20 million tons of cargo would arrive in the years leading up to the Games. Yet, these estimates turned out to be entirely wrong as only three million tons passed through the seaport, which resulted in losses of 44 million rubles in 2012 alone.

Basic Element filed suit for 3.2 billion rubles of lost profit accusing Olimpstroy of rerouting cargo traffic towards overland transportation, contravening initial plans that all cargo would be transferred through the Imereti while simultaneously decreeing the port closed to non-Olympic cargo.

The court dismissed the case outright, finding that the investor had assumed the risk of building the port at his own discretion, and that Olimpstroy had not assumed responsibility to provide a full capacity load of 5 million tons per year. Basic Element has stated an intention to appeal.

First storm

On December 14, 2009 a particularly severe storm pummeled the Sochi coast and destroyed a significant share of completed port facilities. A great deal of construction equipment was washed out to sea, including two large harbor cranes and a high-capacity power unit. Besides that, the Irben floating platform sank and the submarine Nord capsized, killing three.

The damage inflicted by the storm was estimated at two billion rubles. Insurance companies compensated more than 800 billion rubles.

The storm caused delays in the construction of Imereti port. As initially planned, the first phase of the project, providing a cargo-processing capacity of two million tons, was set to be put into service in December 2009, but this had to be pushed back to April 2010. Basic Element then promised to complete the construction by December 2010. The first vessel indeed moored at the port
on April 27. However, official notice to this effect was given to Olimpstroy only on September 10, 2010. Officially, the construction of the port was completed in July 2012. Thus, the first phase was delayed by 9 months, while the second phase was delayed by twice that.

### Loan repayment issues

Basic Element borrowed 3.8 billion rubles from Vnesheconombank to build the seaport. Approval of the loan was based on the estimated cargo load of 15 to 20 million tons. As these targets were not met, the investor ran into difficulties repaying the loan: Basic Element asked to restructure the repayment schedule and to increase the sum of the loan.

Vnesheconombank was faced with the prospect of an irrecoverable loan, but Olimpstroy, another arm of the government, stepped in to underwrite it.

The decision has been made to convert the port into a marina. Basic Element expects to invest a further $50 to 100 million for that purpose. Meanwhile, Vnesheconombank has sued Deripaska’s group for 5 billion rubles. At the moment of writing, the results of court proceedings were not yet known.

On December 16, 2013, Vnesheconombank, acting under the auspice of the Russian government, allowed all Olympic borrowers to defer interest until 2016.
Media Centre

Nearby hotels are being built by Kubanstroiinvest, co-owned by billionaire Roman Abramovich. The Media Centre itself is the project of Inzhtransstroy — a company formerly owned (in part) by Arkady Rotenberg, an old friend of Putin. Another owner of the company, Yefim Basin, has a personal coat of arms with the motto “Audacity and Inspiration”. The construction was audacious indeed: work began without approval from the state inspectorate, the contractor’s head engineer was put in prison for fraud, and finally, at the end of October 2013, a worker sewed up his mouth in protest — he had not been paid for three months. A pending lawsuit against Inzhtransstroy for failing to meet deadlines was announced, but it has not yet been brought to court.

Description

The Main media centre is a two-story building with a total space of over 158,000 square meters. It is intended for the 8,000 journalists covering the Olympics and is coupled with a hotel. After the games, the media centre building is to be repurposed into a shopping and leisure centre, whereas the media village will become a residential district. Per Federal Government decree there were to be 4,200 rooms. This figure went up to 7,092, but no other hotels were built in practice.

Executive in charge

Tsentr Omega is in charge of the construction of the media centre. Despite being referred to as a private investor, it is not. The company is wholly owned by the Department of Property Relations of Krasnodar Region. The Region’s administration, supported by a United Russia-controlled legislature, funds Tsentr Omega through the exclusive purchase of its stock.

Cost of construction

At the end of 2012, Tsentr Omega estimated the total cost for the media centre’s construction to be $1.2 bn., $532.1 mn. of which was to be spent on the main media centre and a hotel for 600 people, and the remaining $639.1 mn. on a supplementary media village to house journalists.

Construction violations

Tsentr Omega obtained a permit for the media centre, but it began work before undergoing the compulsory state inspection. Officials failed to bring the company to account, and there were a number of procedural irregularities in its attempt to fine the company. For instance, neither the protocol of inspection nor a table of photographs was ever drawn up.

Contractor and lawsuits

The media centre and the hotel for 600 people were built by Inzhtransstroy, controlled by a former Minister of Construction, Efim Basin and his son Oleg. They own 44% of the firm, while Mostotrest, owned in part by Putin-confidant Arkady Rotenberg owned 51%. In February 2013, Mostotrest divested its position in Inzhtransstroy. This move strongly suggests that Rotenberg was
aware of possible complaints to Inzhtransstroy about the quality and duration of construction: Since September the company Tsentr Omega has come after Inzhtransstroy for more than $30,6 mn.: $12,2 mn. for defects in the media centre roof, $19,5 mn. for missing its deadline, and $5,4 mn. for breaching the terms of its contract.

The general constructor for the hotel housing 7,092 journalists is Kubanstroyinvest: Its contract is valued at $467,9 mn. This company is a Krasnodar subsidiary of the Snegiri development group, owned by Alexandr Tshigirinsky and oligarch Roman Abramovitch. In 2002, after having invited his brother, billionaire Shalv Tshigirinsky, into the fold, Alexandr founded the company ST Group. In 2007, it was renamed as Snegiri, and in 2009 Roman Abramovitch purchased a stake in the firm.

**Overdue salary and a sewn-up mouth**

In October 2013, a Media Centre construction worker, Roman Kuznetsov, sewed up his mouth and went to the entrance of the media centre demanding payment of his salary, months overdue.

It was subsequently discovered that a subcontractor KrilakSpetsstroy hired workers without a contract and then refused to pay them. More than 100 workers had to turn to the courts for relief.
**Olympic Village**

Oligarch Deripaska, one of the few “private investors” involved in the Sochi Olympics is building the residences of the Olympic Village – It’s just that he is building it with state money. The state Vnesheconombank (VEB) is providing a loan of $672.8 mn. out of the project’s $764.5 mn. budget. Deripaska’s company plans to repay these funds after the Games when the village is sold as a housing complex. It will be difficult for them to secure a profitable deal: an Olympic Village guest room cost as much to construct as the market price of a two-room apartment in Moscow.

**Description**

The main Olympic village is situated in the Imereti Lowlands and is a residential quarter with 1,500 double rooms. During the Games, about 3,000 athletes can be housed here. Next door is a hotel complex with 1,285 apartments for the International Olympic Committee delegation and the Olympic family. The total floor-space of these buildings amounts to 334,000 square meters.

**Deadlines**

Construction of these buildings began only in March 2011, though the deadline was planned for mid-2013. By November 2013, the village remained under construction. Vice Premier Dmitry Kozak threatened the leadership of Bazovy Element with criminal prosecution in the event of failure to meet the deadline before the Olympics. In December, during Prime Minister Medvedev’s visit to the village, the finishing touches were still being put on the buildings, and the stores, cafeterias, and other necessary facilities were still being added.

**Investor and financing**

According to a government decree, Rogsibal is the general contractor in charge of both the Olympic Village and the IOC apartments. This firm is part of the Glavstroi corporation, which manages all the construction interests for Oleg Deripaska’s Bazovy Element holding company. is not the tycoon’s first project in Sochi. This is of course not Deripaska’s lone project: The company Transtroi, which he controls, built the unprofitable cargo port. He is also participating in the reconstruction of Sochi Airport.

Rogsibal spent 23.3 bn rubles on the Village and the IOC apartments; of this amount, 22.3 bn was taken in VEB loans. These loans make up 88% of the budget, i.e. the construction was essentially done at the government’s expense, and not that of the investor.

Though Deripaska does not conceal his ownership of these projects, Rogsibal officially belongs to Imeret Riviera, Ltd. a Cypriot offshore company. Notwithstanding Putin’s platitudes about the “de-offshorization of the economy”, Deripaska prefers to conduct business through Cyprus. The Austrian company Strabag is the general contractor for the construction. Rasperia Trading, controlled by Deripaska owns 18.8% of this firm.

**Cost comparison**

The costs of Olympic Villages have varied sharply. The design for each Olympics is unique, and it impossible to compare their costs directly. For example, the price tag of the Vancouver Olympic Village included the $200 million cost of land and infrastructure for future development, while the Turin Village did not require the laying of roads and other infrastructure.
<table>
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<tr>
<th>Name of Arena</th>
<th>City</th>
<th>Year Opened</th>
<th>Capacity</th>
<th>Cost of Villages in $ mn, 2013</th>
<th>Cost per bed in village in $ thousands, 2013 r.</th>
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</tbody>
</table>

**Billions against the storm**

The Olympic Village is 200 meters from the sea. This location is attractive to those who want to live in the apartments, but this means there is the danger of storms and the need to reinforce the shoreline. Yugproektstroikmontazh, Ltd. won the right to complete this work with a 2 bn ruble bid. The work was to be completed by November 2011. On March 24, 2013, a storm in Sochi partially destroyed the beach, the access road to the port, and about 100 meters of the coastal protection area.

According to eye-witness reports, the waters reached the Olympic Village, flooding basements. 25 billion rubles turned out to be insufficient to fully protect the buildings from a strong but not exceptional storm.

The danger of flooding of the Olympic area forced authorities to hold a new round of bidding for shore reinforcement and related infrastructure opening at 1,5 billion rubles. Nonetheless, a storm in June once again damaged the coast, although less severely than the previous storm.

In October, 4 months before the start of the Olympics, the sea wall failed for the third time. Thus, 2.9 billion rubles were spent without sufficiently mitigating the potential for damage.

**The “bad” post-olympic future of the village**

Deripaska spent 22.3 billion in VEB loans on building the Olympic Village. He plans to recoup this investment by selling the suites and apartments after the Olympics are over. The village is to transform into a year-round luxury resort called Sochnoye. The planned market price is set at 150,000 rubles per square meter. The price of a one-room studio of 40 square meters will be comparable to a studio in Moscow ~ 6 million rubles. Only at those prices could Deripaska make the resort worth it. The area of the apartment to be sold is 169.000 square meters, and the investor wants to return 25.2 billion rubles on them.

Rogsibal has already complained that the scale of the construction does not correspond to the demand. The Olympic Organizing Committee was able to rent out only half of the 1,285 rooms during the Games. The demand for luxury real estate in Sochi will be still lower, and the prices will need to plummet. More than 10 years may pass until all the condos and the apartments are sold, and potential wealthy customers would rather buy high-class real estate in Europe. The likelihood that the sea wall will continue to fail makes these properties even less attractive.

The VEB has already declared the loan as “bad”, and in the apparently likely event that it does not recoup its investment, the losses will be covered by the federal budget. For now, the bank, with the government’s consent, has allowed Olympic borrowers to defer interest payments until 2016.

One concept that may raise the value of the real estate at the resort, is the Oleg Deripaska’s proposed marina. However, to date, the construction has not begun, and the design and source of financing are still not determined. The tycoon has asked the VEB to provide his firm with an additional loan of 3 billion rubles. Prime Minister Medvedev has promised to help.
**Olimpstroy State Corporation**

During the last 6 years, this state corporation has been building the most expensive Olympics in history. Every Olimpstroy director has had a hand in this: Its first president, oil executive Semyon Vaynshtok, lasted half a year without beginning a single construction project, but nevertheless asked for a 150-percent budget increase. The second president, former Mayor of Sochi Viktor Kolodyazhny, delayed the purchase of land parcels and then resigned “on personal grounds”, unable to manage the project. The third president, Putin’s friend Taymuraz Boltiyev, started construction, but then missed his deadlines and went over-budget. After his resignation it was discovered that “ghost payroll” schemes were common at Olimpstroy. The last president, Sergei Gaplikov, former prime minister of Chuvashia, managed to complete the project at the last moment by disregarding quality and increasing the budget once again. Several criminal cases were opened on charges of cost inflation, but investigators are in no hurry to bring them to trial.

**Description of the corporation**

Olimpstroy is a state corporation which is building the Olympic facilities in Sochi. It is the legal heir of the Federal State Unitary Enterprise Directorate of Development for the City of Sochi (formed to implement the Federal Special Program for Development of the City of Sochi as a Mountain Climate Resort (2006-2014).

Not only Olimpstroy is a responsible executor for some of the Olympic facilities, it also controls and coordinates the entire construction process. During its operation, Olimpstroy’s expenditures on the Games reached a record $45.8 bn. Several criminal cases were opened involving Olympic construction jobs, including the case regarding the inflation of the costs by $247.5 mn.

**Non-transparency and lack of public oversight**

Neither Russian government bodies nor Olimpstroy have permitted any external public oversight over the allocation of funds. Actuarial reports have been classified as “for internal use only” and are not published openly.

Some members of parliament have attempted official inquiries and even introduced amendments in the legislation, which would enable parliament to maintain oversight of Olimpstroy’s activity. These have not passed due to stonewalling by United Russia and legislative inquiries have received pro forma replies.

**Budget and expenditures**

Olimpstroy operating capital is made up of the Russian government’s contribution of various forms of capital, state budgets at various levels, credits and other sources.

The budget of Olimpstroy for 2008-2012 is $5.9 bn. $415.5 mn. of this was spent on operating costs alone, 82% going directly to payroll. The average salary at Olimpstroy in 2012 was $4,200.

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*The Sochi Olympics are 5 times more expensive than the Vancouver Olympics and 14 times the cost of the Turin Olympics olympics budget $45,8 bn.*
History of company operations

Olimpstroy has existed for 6 years, over which it has gone through three different presidents. The selection process for Olimpstroy's leadership is anything but transparent; its principles are based on personal loyalty to powerful officials and the financial interests of a privileged elite, rather than professionalism, openness, and concern for the public interest.

8 November 2007 — 17 April 2008. President — Semyon Vaynshtok

The first president of Olimpstroy was Semyon Vaynshtok. Prior to his service at Olimpstroy, he was the head of Transneft, a position in which he was accused of large-scale embezzlement at pipeline construction sites.

On March 5, 2008, Vaynshtok told the State Duma that Olympic spending had risen an additional $4.6 bn. at a minimum in comparison with the initial budget of $9.6 bn. He explained this significant rise in costs as due to the poor preparation of the Olympic budget; for example, the purchase of $2.5 bn. of land had been not accounted for.

Vaynshtok demanded billions more, although Olimpstroy could not even spend the money they had already received. In 2007, out of $15.3 mn. allocated they had only spent $2.3 mn. — and those funds went mainly towards operating costs. In 2008, the state corporation received $2.2 bn. from the federal budget, but spent only $51.9 mn. on construction; another $48.9 mn. was spent on Olimpstroy itself.

By the end of 2008, the project documentation was ready for only six Olympic sites. For more than a year after its founding, Olimpstroy could not even announce a bidding process for the construction of the first sports venue; this only took place on December 30, 2008.

Olimpstroy invested all available funds in various securities. Andrey Kostin, president of VTB (Vneshtorgbank) accused Olimpstroy of lacking transparency. A week after this announcement, Vaynshtok left the post of president of Olimpstroy. The official reason for resignation was his personal decision to retire. Dmitry Kozak, deputy chairman of the government called his departure a planned one, although Vaynshtok had confidently spoken of his work plans for the upcoming year. After he resigned, the ex-president of Olimpstroy flew to London and then to Israel.

Several years later, Semyon Vaynshtok was involved in another memorable corruption scandal. The politician Alexei Navalny accused him and other Transneft executives of organizing the embezzlement of more than $3.7 bn. The basis for the accusation were materials prepared by Transneft auditors at the request of the Accounts Chamber. Putin promised that Navalny's statement about the crime would be checked. However, Vaynshtok never became a suspect.

17 April 2008 — 6 June 2009. President Viktor Kolodyazhny

Viktor Kolodyazhny became mayor of Sochi in 2004. He is remembered by city residents for the frenzied laying of street tiles, and for covering pebble beaches with sand – which a storm would wash away.

One of the main problems Kolodyazhny had to resolve was the purchase of land from residents to build the Olympics sites. On November 7, 2008, Aleksandr Saurin, a vice-president of Olimpstroy, promised to complete this process in the Imereti Lowlands by the end of the year. Meanwhile, Olimpstroy's review commission found that only 53.3% of the scheduled parcel purchases had been completed by December 31, 2009.

Kolodyazhny did not resolve the problem of generating a final budget for the Olympics. Numerous miscalculations were found in the initial estimates, and in the construction program approved after that only the party responsible with executing each project was indicated. Only on September
29, 2009 did the Ministry of Regions assess the costs for 2009-2012 at $32.2 bn. It was noteworthy that in 2006 Kolodyazhny had said that the $9.9 bn. Olympic budget would decrease by 20%.

On 6 June 2009, it became known that Viktor Kolodyazhny was leaving the post of President of Olimpstroy “for personal reasons”. Vladimir Putin evaluated his work as “generally speaking ... not bad”. The real reason for Kolodyazhny’s departure was likely the inability to manage a project on a scale as large as the Olympics. On August 18, 2009, Kolodyazhny became head of Rosrejestr [Russian State Registry] for Krasnodar Region.

6 June 2009 — 31 January 2011. President Taymuraz Bolloyev

On June 6, 2009 the appointment of Taymuraz Bolloyev to the presidency of Olimpstroy was announced. From 1991 to 2004, Bolloyev had headed up a beer-brewing company called Baltika. Later, he created BTK Group, one of the largest uniform manufacturers in Russia, with revenues of $189.4 mn. This company was the exclusive supplier of uniforms for Russian armed forces. As well, Bolloyev had created the construction firms Grantika and BTK Development. From the early 1990s, Bolloyev had been acquainted with Putin, and in 2004 was an official representative of his presidential campaign.

Bolloyev displayed an odd pattern of labeling as “private investors” companies that were in fact financed out of the state budget. At a meeting with Dmitry Medvedev, Bolloyev claimed to have secured such an investor for the construction of the speed-skating centre. In reality, the arena was built by the Tsentr Omega, wholly owned by the Krasnodar Region and financed out of its local budget.

In the summer and fall of 2010, several figures of the “Luzhkov team” joined Olimpstroy. Foremost was Leonid Monosov, the former head of Mosgorzakaz [Moscow City Procurement] and until recently the owner of Moskapsstroy [Moscow Capital Construction] — not coincidentally the largest recipient of city government contracts in Moscow. During his time at Olimpstroy, Monosov managed to secure an Olympic construction job for his son’s firm.

On January 31, 2011, Bolloyev left the post of President of Olimpstroy for “health reasons”. A more likely reason for his resignation was tension with the team of Luzhkovites and a conflict with Dmitry Kozak. What is more, Bolloyev’s resignation was followed by reports that six criminal cases had been opened to prosecute payroll fraud at Olimpstroy.

31 January 2011 — Present Time. President — Sergei Gaplikov

The fourth president of Olimpstroy is Sergei Gaplikov, the former Prime Minister of the Chuvash Autonomous Republic and deputy director of the government administration. In 2000-2004, Gaplikov worked as a deputy in the Ministry of Economic Development, at that time led by German Gref. Gaplikov and Gref evidently built a strong relationship; after Gaplikov’s appointment to Prime Minister, Gref allocated $0.8 mn to support social projects in the republic.

Gaplikov is characterized as an official who has proven his loyalty, and is devoid of entrepreneurial ambitions. Precisely such a man was needed to get the Olympic buildings finished no matter what.

After the Olympics

After the completion of the Games, Olimpstroy will be liquidated. Three years ago, Elvira Nabiullina, then the head of the Ministry for Economic Development, decreed that the state corporation would exist until 2015. In contrast, Taymuraz Bolloyev proposed closing Olimpstroy only once the fate of each Olympic site was decided.

The law chartering Olimpstroy does not stipulate when it is due be shut down. A separate law must be passed and a liquidation commission has to be created.
Organizing Committee and Olimpstroy Office Centre

During the Sochi Olympics, the complex will house the temporary office of the Sochi 2014 Organizing Committee and state-owned Olimpstroy. It is being constructed by the MonArch group of companies, which is partly owned by Andrey Monosov, a son of Olimpstroy’s former vice president. The development was added to the list of Olympic projects six weeks after Monosov’s father joined Olimpstroy. One of the project’s investors, the privately-owned Itera-Sportstroy, will assume full ownership of the property after the Olympics despite contributing only 14% toward the cost of the project. The rest was sourced by means of Vnesheconombank loan. State-owned Vneshecomenbank has already deemed this debt potentially irrecoverable.

New vice-president

Leonid Monosov assumed the vice presidency of Olimpstroy in June of 2010. Six weeks later, the project was awarded to Itera-Sportstroy Ltd (1,2,3). Two days later Itera-Sportstroy chose Moscow-based MonArch as a subcontractor.

Contract awarded within the family

Leonid Monosov’s son, Andrey is among MonArch’s group of owners. Andrey Monosov controls 3% of the firm’s shares (1,2) through Real Estate Group (also known as Monarch Real Estate). He also serves as CEO of MonArch-Development. In 2012 he was a member of the company’s board of directors and in 2010 his sister Alina was mentioned in a list of affiliated persons.

As such, the company tied to Leonid Monosov’s son became involved in the construction of a newly announced office centre project worth $152,8 mn. only six weeks after Monosov joined Olimpstroy.

Much of Leonid Monosov’s Moscow career was marked with similar arrangements. Monosov served as a head of the Department of Municipal Contracts of the Government of Moscow. Before that, he headed Moskapstroy, a company that was awarded a significant number of municipal contracts (the influential Russian daily Vedomosti also claimed that Monosov owned a stake in Moskapstroy). Moskapstroy acted as a “technical contractor” that merely handled the paperwork while actual construction was carried out by different entities such as Inteco controlled by Elena Baturina, wife of the then-Mayor of Moscow. Aside from this, MonArch group itself had a large number of construction contracts in Moscow including ones awarded by the state.

General contractor loves siberian white cranes

Itera-SportStroy is a subsidiary of Itera-Invest-Stroy which is 99.9% controlled by an offshore company incorporated in Cyprus. These two companies had previously been a part of ITERA IGC. Itera-SportStroy was engaged in gas and oil production and construction. In July 2013, Igor Makarov, a billionaire and main owner of ITERA, sold the entire oil and gas business to Rosneft.

It is worth noting that ITERA is the title sponsor of The Flight of Hope project aimed at saving Siberian white cranes. Russian President Vladimir Putin led a flock of these cranes to the sky in September 2012.
Cost and financing

Initially, construction costs were estimated at $100.8 mn. In the end, the offices of the Sochi Olympics Organizing Committee cost $152.8 mn.

Itera-Sport-Stroy secured a $131.4 mn. loan from state-owned Vneshekonombank. The loan was underwritten by Olimpstroy. Most likely, the loan will not be repaid as Sochi is likely to be flooded with commercial property after the Olympics. Vneshekonombank has already recognized this loan as bad.

Itera-Sport-Stroy and MonArch’s padded earnings from building the property this office space can be gauged by comparing the cost of this development with similar development projects in Moscow and Krasnodar. The cost per square meter of commercial office space in Moscow is 1.3 times less than the cost per-square-meter of constructing the Sochi Olympics’ Organizing Committee offices; a square meter in a Rostov-on-Don office building costs 3.6 times less.

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<th>Usable area, thousand square meters</th>
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<th>Cost per square meter, $</th>
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<td>Riverside-Don office centre, Rostov-on-Don</td>
<td>16.0</td>
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</table>
Relief road for the Sochi Kurortny Avenue

Firms controlled by two billionaires, Arkady Rotenberg and Oleg Deripaska, were responsible this time- and money- consuming project — the road's opening was postponed for a year. Meanwhile, Levan Goglidze, head of the main contractor, was arrested and accused of embezzling $3.9 mn. of state budget funds. Vneshtorgbank (VTB) turned to court action seeking repayment of $71.9 mn. in loans. Oleg Deripaska, whose companies oversaw the construction, got away clean.

Description

The New Kurortny Prospekt route is the main urban thoroughfare of Olympic Sochi. This road runs from the Agura river, in Sochi’s east to the Psakhe river in the west. It was designed to relieve congestion and enable free-flowing automobile traffic to Olympic stadiums in the Imereti lowlands at speeds upward of 100 kph.

Costs and financing

According to the 2008 Federal Special-Purpose Program, 112.6 bn. rubles were allocated for the construction of the New Kurortny Prospekt route. However, this figure was later reduced. The final contract value with general contractors amounted 83.2 bn. rubles.

Contractors

The contract for the project’s first phase was awarded to Tonnelny Otryad No. 44, a subsidiary of Oleg Deripaska’s Transstroy, for 22.5 bn. rubles. Some of the work was eventually subcontracted to Arkady Rotenberg’s Mostotrest.

Tonnelny Otryad’s ownership is structured as follows: As of 2012, 34% shares are held by the Federal Property Management Agency, 34.7% by Korporatsya Transstroy, and 31.3% is held by Levan Goglidze, an entrepreneur who also acted as the company’s CEO. Goglidze is also a United Russia deputy in the Sochi City Council. Anatoly Pakhomov, mayor of Sochi, has never made a secret of his regard for Goglidze. “I’m sure that people like Levan Vasilyevich deserve to be not only honorary road builders, but also honorary citizens of Sochi”, he told the press in 2009.

In 2010, Novaya Gazeta newspaper reported that Goglidze used highway construction funds to settle 2 bn. rubles in personal debts. Next, he siphoned around 1 bn. rubles from Tonnelny Otryad using companies under his control, but surreptitiously established by third persons.

In September 2010, Minister of Regional Development Basargin interrupted the Tonnelny Otryad shareholders’ meeting with a telegram warning them “to prevent disruption of the Olympic-venue-construction deadlines”. Shortly before this, Transstroy’s CEO Ivan Kuznetsov was fired. Company owners accused him of embezzlement. In June 2012 it was reported that the inquest against the companies engaged in Sochi construction led to Goglidze’s arrest. He was accused of embezzling 126 mn. rubles.

The second and third phase of the New Kurortny Prospekt route were constructed by Mostotrest for 59.4 bn. rubles. 29.2 bn. of the work was subcontracted to Transstroy.

Major Mostotrest shareholders include Cyprus-based Marco Polo Investments Ltd. with a 38.6% stake and UK Transfingrup with 26.8%. Billionaires Arkady and Igor Rotenberg, senior executives of the N-Trans logistics group, own the Cypriot company. As a youngster, Arkady Rotenberg was a judo sparring partner of Vladimir Putin, and the two remain friends. From the early 2000s, the Rotenberg
brothers’ business portfolio began to expand rapidly. Today, they are dollar billionaires, and the largest government contractors: their companies build gas pipelines and roads all over Russia. Until 2008, N-Trans was called Severstaltrans; Igor Levitin, ex-Minister of Transportation, was the deputy manager of this company until 2004. Today, Levitin is an Assistant to President Putin. 59.8% of UK Transfingrup shares are owned by the Blagosostoyanie Russian Railways pension fund, Transfinansgrup also manages the funds of Blagosostoyanie. Vladimir Yakunin, president of Russian Railways, is the chairman of Blagosostoyanie’s board.

### Project features

A third of the new route is designed with two lanes, the rest has four lanes with numerous bridges, overpasses and tunnels. The project also includes seven junctions.

<table>
<thead>
<tr>
<th>Basic Technical Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase 1</td>
</tr>
<tr>
<td>Length, km</td>
</tr>
<tr>
<td>Number of lanes</td>
</tr>
<tr>
<td>Number and length of tunnels, pc/km</td>
</tr>
<tr>
<td>Number and length of bridges and overpasses along the base route</td>
</tr>
<tr>
<td>Road junctions</td>
</tr>
</tbody>
</table>

* one one-lane tunnel, 0,3 km long; ** twin tunnels; *** twin overpasses

### Comparison with similar projects

We divided the New Kurortny Prospekt Route project into four parts (simple roadway, bridges, tunnels, and junctions) for the sake being able to interpret its cost in a comparative light: Junctions were compared to the prices of equivalent facilities in Sochi. For the remaining components we examined similar projects abroad.

#### 1 Tunnels

Tunnel length was adjusted to reflect twin tunnels, in which case the length figure was doubled. The total tunnel length for this project was 12,1 km.

<table>
<thead>
<tr>
<th>Name</th>
<th>Country</th>
<th>Year</th>
<th>Nominal length, km</th>
<th>Effective length, km</th>
<th>Total cost, mln USD 2013</th>
<th>Price per km, mln USD 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rennsteig Tunnel</td>
<td>Germany</td>
<td>2003</td>
<td>7,9</td>
<td>15,8</td>
<td><strong>398</strong></td>
<td>25</td>
</tr>
<tr>
<td>Strenger Tunnel</td>
<td>Austria</td>
<td>2005</td>
<td>5,8</td>
<td>11,6</td>
<td><strong>354</strong></td>
<td>31</td>
</tr>
<tr>
<td>Somport Tunnel</td>
<td>France/Spain</td>
<td>2003</td>
<td>8,6</td>
<td>8,6</td>
<td><strong>418</strong></td>
<td>49</td>
</tr>
<tr>
<td>Jondal Tunnel</td>
<td>Norway</td>
<td>2012</td>
<td>10,0</td>
<td>10,0</td>
<td><strong>134</strong></td>
<td>13</td>
</tr>
<tr>
<td>Baregg Tunnel</td>
<td>Switzerland</td>
<td>2004</td>
<td>1,1</td>
<td>3,3**</td>
<td><strong>401</strong></td>
<td>122</td>
</tr>
</tbody>
</table>

* costs per 1 km of effective length; ** triple tunnel, 1,1 km. each drive

The average cost for 1 km of tunnel is $34,6 mn. A fair estimate for the cost of this project’s tunnel sections is thus **$418 mn. or 13.8 bn. rubles.**
2 Bridges

Architecturally complex bridges were chosen for comparison, including the Millau Viaduct, a cable-stayed, 270-meter-high bridge.

<table>
<thead>
<tr>
<th>Name</th>
<th>Country</th>
<th>Year</th>
<th>Length, km</th>
<th>Total cost, mn. USD 2013</th>
<th>Price per km., mn. USD 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millau Viaduct</td>
<td>France</td>
<td>2004</td>
<td>2.5</td>
<td>605.0</td>
<td>242.0</td>
</tr>
<tr>
<td>Second Severn Crossing</td>
<td>Great Britain</td>
<td>1996</td>
<td>5.1</td>
<td>758.0</td>
<td>149.0</td>
</tr>
<tr>
<td>Rosario-Victoria Bridge</td>
<td>Argentine</td>
<td>2003</td>
<td>12.2</td>
<td>617.0</td>
<td>50.6</td>
</tr>
</tbody>
</table>

The average cost per kilometer of bridge is $100 mn. A fair estimate for the cost of this project’s tunnel sections is thus 890 mln USD or 29.4 bln rubles.

3 Traffic Junctions

For comparison, let us take other Sochi junctions:

<table>
<thead>
<tr>
<th>Name</th>
<th>Total cost, bn. RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adlerskoye Koltso junction</td>
<td>5.3</td>
</tr>
<tr>
<td>Vinogradnaya-Donskaya junction</td>
<td>3.4</td>
</tr>
<tr>
<td>Stadion junction</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Average cost of a junction: 2.7 bn. rubles. A fair estimate for the cost of this project’s 8 junctions is thus 21.6 bn. rubles.

4 Automobile Road

We use per-kilometer cost data published by the Ministry of Transport. Values in the table do not include VAT and preparation of the ground.

<table>
<thead>
<tr>
<th>Country</th>
<th>Average costs per 1 km, per lane, mn. RUB</th>
<th>Country</th>
<th>Average costs per 1 km, per lane, mn. RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>123</td>
<td>USA</td>
<td>72</td>
</tr>
<tr>
<td>France</td>
<td>101</td>
<td>Finland</td>
<td>41</td>
</tr>
<tr>
<td>Canada</td>
<td>82</td>
<td>China</td>
<td>35</td>
</tr>
</tbody>
</table>

The average value for a four-lane-road including a 18% VAT: is 360 mn. rubles per kilometer. Preparation of the ground amounts to 10-40% of the roadbed construction costs. For the sake of argument we will assume that 40% is a fair cost given that the road passes through a densely populated area. As a result, 1.9 km. should cost 691 mn. rubles.

The total cost of an equivalent project thus comprises costs for each of the four sections and equals 13.8+29.4+21.6+0.7 = 65.5 bln. USD.

Total construction cost of the New Kurortny Prospekt cost 83.2 bn. rubles. According to this generous calculation, the road is overpriced by 17.7 bn., 30%.
Construction time

Commencement of the first phase of construction was delayed by over a year. Construction was scheduled to be completed by January 1, 2012, however the road was inaugurated late in January of 2013. V. Kuzhel, head of the Chernomorye Road Construction Directorate had theretofore claimed that a rapid pace of construction was the main criterion for selecting a contractor.

Phases two and three were to commence in April 2013. Mostovik was awarded the contract because it had projected a 28.5 month timeline for construction time in the bid, while another bidder had promised to build the road in 38 months. In fact, the road opened to traffic on January 7, 2014. Phases 2 and 3 were over 8 months overdue. As of early January, locals said two tunnels remained unready and closed to traffic.

A road runs through the people

Over hundred private houses were demolished to construct the New Kurortny Prospekt Route, their owners receiving compensation or being resettled. According to citizens living near the road, sewer systems leading to their houses have been destroyed, their yards have been damaged, and they have suffered from the constant dust and noise from the traffic. Sidewalks have not been rebuilt and playgrounds and parkland have been damaged.

In March 2013, one of the tunnels collapsed, causing a private house to slip and tilt. The owner of this house petitioned the court to bring criminal charges for wrong-doing, but this petition was dismissed. Shortly thereafter, the court condemned the building: It was demolished in May.
Road to the Potemkin Science Centre, Lunnaya Polyana

According to official statements, the road leads to a meteorological station that will monitor climate changes due to Olympic construction. Local ecologists insist that the real purpose of this road is to provide access to the VIP-resort Lunnaya Polyana, where Vladimir Putin reportedly practices skiing. The road goes through a UNESCO's world nature heritage site, and the construction led to a massive clearing of threatened trees.

Description

According to documentation, this road, which passes through the Sochi National Park and the Caucasian Reserve, leads to a weather station monitoring changes in climate associated with the construction of Olympic venues. In September 2011, officials invited bids to construct two sections of this 23 km. road and a year later — to build the rest of the road.

Where does the road go?

The official name of the venue to which the road leads is the Biosphere Science Centre. According to the planning permission it was built for “scientific research and environmental education involving educational and sport tourism”. It was also to carry out work on “warning systems for natural disasters, for the safety of the population”.

Unless these are the most pampered scientists in the world, the Research Centre is a VIP Ski resort, which consists of two cable cars, a ski lift, a sauna, a tennis court, a snowmobile trail, two helicopter pads, and satellite communication infrastructure.

14 Alpine-style chalets were built to host VIP guests. The staff and security are housed in a luxurious 27 room residence.

Who is it for and who built it?

The President’s Office ordered this venue built in 2002. Barring any other reasonable explanation, it is logical to assume that the object was constructed for the recreational purposes of Vladimir Putin. Financing of the project was entrusted to the state company Rosneft.

In September 2006, the head of the Presidential Property Management Department, V. Kozhin, personally signed a letter from new Minister of Natural Resources Yuri Trutnev to expedite the transfer of land to the Caucasus Reserve for the construction of the Science Centre.

This document states that the building’s owner, the state company Rosneft, is also the owner of the land for the Biosphere Science Centre via two companies, RN-Trade and NeftAktiv. Putin’s spokesman, Dmitry Peskov confirmed in an interview with Marker magazine that “Just like other ordinary visitors, the president goes to Lunaya Polyana – but not often, because his schedule does not permit it”. Peskov stressed that “Vladimir Vladimirovich does not have a holiday resort there. It is not a closed area: there are hiking trails, in different directions, there are constantly a large number of tourists there, especially during the season, and scientists are working there too. So to say, that it belongs purely to Vladimir Vladimirovich is wrong”.

However, no tourists or scientists have been seen around the secure resort guarded by the FSO. This has drawn the attention of UNESCO experts, who have advised Russia to use the Lunnaya Polyana site as a real Science Centre and venue for public recreation.
On the second attempt

The first attempt to build a motorway running to Lunnaya Polyana was made in 2007, from the north. Over 50 km motorway stretch was to connect Lunnaya to Maikop Airport. In 2009, after 48 kilometers of motorway had been laid, construction was halted by environmental activists and UNESCO, as it turned out the road was being routed through a Western Caucasus World Natural Heritage Site.

In 2011, it was decided to build a new road to Lunnaya Polyana, now from the direction of Sochi. The reason provided was the necessity to have a weather-monitoring station at Lunnaya Polyana to monitor changes in climate related to Olympic Construction. Supposedly, this road was built for the operation of this weather station. Competition to design this weather station, which does not seem to actually exist, was announced in December 2011.

The road to profits for a political ally

YUPK Stroy received won all the contracts of the road to the Olympic Weather Station. The total cost was projected at $60 mn. This company was the only applicant for the building competition — contractor selection was functionally non-competitive. Yuri Kopachev, a United Russia deputy of the Krasnodar Region Legislative Assembly is Chairman of the Board of Directors of YUPK Stroy. He is also a managing direction of the regional subsidiary of Russian Railways, RZhD Stroy. YUPK. Stroy has received $119,3 mn. worth of state railway contracts, most of them through Russian Railways. Kopachev was elected to the Legislative Assembly by the "Olympic constituency", a district in which Olympic workers are to vote.

New road, new challenges

Construction of the road began in the 4th quarter of 2012. In the process of building the road, thousands of rare trees were cut down within Sochi National Park and the Caucasus Nature Preserve. Moreover, YUPK Stroy illegally sourced gravel from the Shahe River conservancy. Meanwhile, construction waste has consistently flowed into the river. In autumn of 2013, the unfinished road was partially washed away by floods.

The Azov-Black Sea Region Department of Fisheries has since launched an administrative inquiry into YUPK Stroy based on violations of environmental-protection legislation.
**Sochi-park theme park**

The deputy director of the construction company is Roman Batalov, a 28 year old MGIMO [Moscow State University of International Relations] graduate and the youngest member of the Krasnodar Region Parliament. His career took off after he married the Krasnodar Governor’s daughter. The Anti-Corruption Foundation has discovered that a co-owner of Sochi-Park is Pavel Ryzhenko, another associate of the governor (he was previously a director of one of the Agrocomplex JSC branches linked to Tkachev’s family). Although Sochi-Park representatives claim its main theme will be Russian national honor, the park is owned by a shell company registered in the Caribbean, the amusement rides were imported from Europe, and the construction is carried out by a Turkish contractor.

**History of construction**

The idea of building an amusement park at Imereti lowlands is not a new one. Back in 2004, a general layout of an amusement park, “Magic Land”, was designed, but the project failed to attract investors. In late 2009, it became known that Krasnodar region administration planned to build a theme park there. For that purpose, Sochi-Park JSC was established. It is chartered specifically to design and build “Olympic facilities”.

**Olympic attractions**

On January 19, 2010, the construction program for the Olympic Games was extended to accommodate two more objects – a theme park and a hotel, with Sochi-Park JSC acting as investor. At that point, Krasnodar Region held full rights to this project. A few months later, Sochi-Park JSC purchased the rights to build a theme park in Sochi (designed by a Swiss company Maxmakers Ltd.) from the National Business Development Bank (controlled by the Bilalov brothers) for $1 mn. At Investment Forum Sochi-2010, Krasnodar region governor Alexander Tkachev and his son-in-law, Sochi-Park JSC’s deputy director Roman Batalov, presented Vladimir Putin with a Visitor #1 pass to the future amusement park.

**A Caribbean park of national pride**

In November 2010, the Krasnodar Region sold 90% of its stake in Sochi-Park JSC to an offshore company, Nodaway Ltd. (registered in St. Kitts and Nevis). The actual owners of the offshore company remain unknown. In 2012, Yug-Businesspartner LLC, owned by the very same Nodaway, bought the remaining outstanding shares and assumed full ownership of Sochi-Park JSC.

**Cost and financing**

In December of 2010, Sochi-Park received a 150 mn. ruble loan from Krayinvestbank, in April of 2011, a 900 mn. ruble credit from Sberbank, in 2012, a 1.4 bn. ruble loan from Vnesheconombank and 1.55 bn. from its owner, LLC Yug-Businesspartner. Company reports provide no further information on other investments. Meanwhile, total cost of construction is estimated at 9.14 bn. rubles.
Connections between Sochi-park and the Tkachev family

In 2006, Roman Batalov married Tatyana Tkacheva, the daughter of Krasnodar Region governor, whom he met while studying at MGIMO. At age 23, he became the youngest member of the Krasnodar Region Legislative Assembly. He was elected as candidate from United Russia and became first deputy chairman of the Committee on Property and Land Relations. Being a deputy, Batalov continues to run his businesses: at different times, he has owned and/or managed a total of 65 companies, including those working in Krasnodar's real estate and restaurant business.

Since September 2010, Roman Batalov has been Sochi-Park JSC's deputy general manager and, from March 2011 to this day, serves on its board of directors. Until mid-2012, Sochi-Park's general manager was Ruslan Gorelov, who was also director of Agrocomplex JSC – Tkachev's family business. It was founded in the early '90s by Alexander Tkachev and his brother Alexey, with their father Nikolay remaining to this day as permanent chairman of its board of directors.

Ruslan Gorelov was also a director of the Renaissance charity fund founded by governor Tkachev's brother and father. In June 2012, Gorelov was elected to Sochi-Park's board of directors.

Sochi-Park's board of directors includes, apart from Tkachev's son-in-law Batalov, a certain Olga Konnova, who, judging by the regional Legislative Assembly's website, works in Batalov's Vyselki village community liaison office.

Connections between Yug-Businesspartner and the Tkachev family

Although Sochi-Park was sold to Yug-Businesspartner, 99% of this company is owned by the same offshore company Nodaway Ltd, while less than 1% is controlled by Pavel Ryzhenko. The effective owner has not changed as Nodaway is a parent of Yug-Businesspartner. Pavel Ryzhenko has his own connection to the Tkachev empire – he was a director of one of Agrocomplex's subsidiaries.
**Sochi, the Presidential Resort**

This resort belongs to The Presidential Administration of Russia. The 45,9-million-dollar contract for its renovation was awarded to the Moskonversprom company. Valeri Morozov, Moskonversprom’s CEO and owner, claims that Vladimir Leshevski, a senior administration official, extorted bribes to the tune of $5,5 mn. The businessman contacted the police and handed another $458,716 to Leshevski under police surveillance. According to Morozov, the process was videotaped, but the case was later dropped, and Moskonversprom was suspended from the contract. Morozov left for London (a case for tax evasion had been opened against him), Leschevsky remained in civil service, and the contract for renovation of the facilities was handed to the Presidential Administration itself.

**The sanatorium**

Shortly after the announcement of Sochi’s selection as the venue for the 2014 Olympic Games, the sanatorium, owned by the Department of Presidential Affairs, appeared on the list of Olympic facilities as the government delegation would be staying there during the Games.

The Moskonversprom company had a long history of working on government contracts (the Kremlin Presidium, Gostiny Dvor, Arkhangelsk and Barvikha holiday resorts) and, having already been involved in the design of the sanatorium, signed onto the contact for preparing the Olympic facility.

**Accusations of bribery**

Between May and June of 2010, Moskonversprom’s Valery Morozov gave a series of whistleblowing interviews, in which he claimed that while working on the contract, Vladimir Leschevsky, deputy head of the Presidential Administration’s construction department, extorted from him a bribe of 12% on each payment. Morozov maintains that he paid around 180 million rubles in total.

According to Morozov, he met the administration official about 20 times over one and a half years, personally handing over an envelope filled with money each time. He also claims that he transferred money to Leschevsky through shell companies.

**An investigative experiment**

In 2009, Valery Morozov filed a claim of extortion with the Interior Ministry’s department for Economic Security (ORB number 7, DEB MVD). As part of the investigation of his complaint, Morozov was asked to participate in an investigative experiment: to hand over 15 million rubles to Leschevsky in a Moscow restaurant, recorded on audio and video, and under the supervision of law enforcement officers.

In his interview with Novaya Gazeta, Morozov says that despite the fact that the experiment was successful – Leschevsky took the money – the UDP official was not detained. They explained to Morozov that, at the last moment, an arrest warrant was blocked.

**The criminal case**

In January 2010, Morozov sent a letter concerning the incident to President Dmitry Medvedev. Medvedev gave instructions [a copy is in the Photo folder] to Prosecutor General Yuri Chaika to
investigate the affair. In August 2010, after the initiation of criminal proceedings, Leschevsky was suspended from his position. However, about a year later, he once again took up a position in a government agency, this time at the State Directorate for the Construction and Renovation of Facilities for Federal Government Agencies. At the time of his appointment, Leschevsky was a suspect in a criminal case. Despite this, he was made responsible for the renovation of the buildings of the Kremlin, the State Duma, and the Russian Government.

In May 2010, the Investigative Committee closed the case against Leschevsky due to a "lack of evidence" caused at least in part by a suspicious error: The materials from the investigative experiment, the recordings of the meeting between Leschevsky and Morozov, during which a bribe was handed over, were accidentally destroyed. They were supposedly not claimed before the deadline for their destruction.

A new tender and contractor

Work on the renovation of the sanatorium didn’t stop, regardless of Morozov’s dispute with the UDP. Morozov’s firm was not allowed to compete for the contract, and the work started by Moskonversprom was continued by the state owned ‘UDP RF Construction Association’.

Novaya Gazeta managed to obtain and compare bids from both competitions – the original contract with Moskonversprom, and the contract for the completion of work by the UDP RF Construction Association. On the basis of this evidence, they report that the new contract with the UDP RF Construction Association partially duplicates work already done by Moskonversprom. The department allocated around 2 bn. rubles for the completion of the sanatorium, 800 million of which was earmarked for already completed foundations, walls and even a finished access road. According to the newspaper’s investigative records, the money for the construction was received by firms close to officials in the Department for Presidential Affairs.