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ANDREY MELNICHENKO: I AM A HAPPY MAN

A conservative investor, an apolitical and happy man: Andrey Melnichenko tells why he is unwilling to invest in new assets and shares his vision of the future for his business

- 1993: co-founder, Chairman of the Board of Directors of MDM Bank
- 2000: co-founder of MDM Group, President of the Group between 2001 and 2004
- 2007-present: member of the board of the Russian Union of Industrialists and Entrepreneurs
- 2007: Chairman of the Board of Directors of EuroChem
- 2011: Chairman of the Board of Directors of SUEK and SGK

“It’s unlike anything I’ve seen before!”

“The thermal energy sector can be subdivided into the segment comprehensible to investors, that is the CDA [capacity delivery agreement], while the situation with most thermal generation is absurd. To produce the same amount of product separately at the GRES [state district power plant] and the boiler station, you have to use 25% more energy products than at a thermal power plant. The TPPs are in competition with the GRES on the electric power market, and on the heating supply market they are competing with boiler stations. Reason dictates that the more efficient market player must be more profitable, these are the facilities that have to be the most vibrant and attract the most investments. But that’s not how it is. In order to punish the TPPs designated as inefficient and their poor owners, the regulatory methodology has deliberately excluded the possibility that they may be drawing some profits, since earnings are now formed exclusively in order to cover current production costs. No dividends are of course envisaged. A great business: you are efficient, you are called an idiot, and told that since you are an idiot, you have to work better, and you are prohibited from making a profit. It’s my first time working in a business like that, I find it fascinating. But sooner or later, any stupidity will reach its rational conclusion. To impose order, we have to double the TPP tariffs, which means a rise of 12% for consumers in Siberia, which is not very much. What will happen if we wait until these TPPs no longer exist? Then we’ll need to raise Siberian prices three times. We are now surviving as debtors of the energy facilities. Who will pay for this? The consumers. Why aren’t they nervous about it? They think that the government will shoulder the burden. It costs around \$20 billion to build a new SGK. This is 20 times more than SGK’s current market value! It’s unlike anything I’ve seen before. Sooner or later, common sense will prevail, and it will be clear that if a producer is 20% more efficient, they have to draw 25% more profit. In the privatised segment of the business, drawing a profit will sooner or later cease to be a crime. And then everything will be different.”

What Melnichenko owns

Melnichenko holds 81.35% in SUEK and SGK through companies under his control, and Sergey Popov holds 18.65%. Melnichenko holds 92.2% of EuroChem, with 7.8% held by Dmitry Strezhnev. SUEK (IFRS, 2011): earnings 167 billion roubles, profit 24.8 billion roubles. Production: 92.2 million tons of coal. EuroChem (IFRS, 2011): earnings 131.3 billion roubles, net profits 32 billion roubles.

Melnichenko's approach

“In each of the companies I own, I am Chairman of the Board. We hold board meetings on average once every six weeks. I keep in much more regular contact with General Directors and a number of other key managers. The system in a private company is that professionals are doing their jobs, other professionals are monitoring them, the shareholder is keeping idiots away from work and encourages professionals by creating an appropriate system of incentives and monitors the implementation of this system, as well as the required ethical elements – and then all is well.”

Andrey Melnichenko has recently turned 40. At this age, he has already managed to build a business the value of which he himself is not prepared to estimate, while Forbes has placed him in 11th place in the list of Russian billionaires, putting his wealth at \$10.8 billion. This rough diamond from Gomel managed to make it to Moscow when he was still a schoolboy. After passing his exams, he was invited to join the Kolmogorov boarding school No. 18 in Moscow. His parents (his father a physicist and his mother a teacher of Russian Literature) let their son study in Moscow during his final school year. When he became wealthy, he moved his parents to Moscow, where they now live. Mr Melnichenko made his first money with his school friends, but he made his billions working together with Sergey Popov whom he met on one fateful day in a Moscow gym.

With years of sustained growth and battles for his enterprises behind him, ahead lies the development of his raw material assets, and this is a job Melnichenko views as both exciting and promising. He calls himself a conservative investor and he is philosophical about his business: “The important thing is not attendance but results... One should always (when one is already of age) try to get top marks for good behaviour. One has to conform to the conditions of the environment around. One must not hurt anyone”. And this is his recipe of good life: “There has to be a balance, there mustn't be just one most important thing. Any disproportion is bad”.

- Please tell us about your family, who your parents were, how you spent your childhood, how you ended up in Moscow.

- I was born in the city of Gomel, Belarus. My father is a scientist, a physicist, and my mother is a teacher of Russian Literature. When I was in secondary school, I was in a “maths special” class as they called it then. I sat my exams and I was accepted by the Kolmogorov boarding school No. 18 in Moscow. I studied there in my final year and after that I got into the Physics Faculty at Moscow State University. When I was already doing business in Moscow, I moved my parents there, and this is where they now live.

- So your childhood dream was to become a physicist?

- Out of all the things I was aware of at the time, this life scenario seemed the most appealing. But later my interests changed, and I dropped out of the University in my third year. I've been mostly interested in business ever since.

- When did you first become interested in making money?

- I think it was a very organic change of interests. The knowledge I gained at the boarding school was substantial enough to leave me a lot of free time during my first two years at University. The model created by the founding fathers of the boarding school was to help a diligent student to spend this extra time to focus on a narrower chosen field, so that they could integrate themselves with the academic community from their first days at University. But the early 1990s offered a lot of other opportunities and temptations apart from this scenario. With my school friend Evgeny Ishchenko, we registered a company and started selling whatever we could. Later, we had another school graduate join us as a partner: Mikhail Kuznetsov. There came a point when trading in cash started bringing the most stable income. It was also

scalable and the returns were growing in proportion with the scale of operations. Our first currency exchange office was opened when Evgeny and I were in our second year at University; it was in 1991. The office was located in the main University building. By 1992, too many people with large bags started coming to us, so we formed a partnership with Premier Bank, one of Russia's first private banks. We started working in their branches. There were several exchange offices in Moscow, and then we moved beyond it.

- And how did you become a banker?

- In 1993, MDM Bureau obtained its own Central Bank licence, which was extended to a full bank licence later that year. This is how MDM Bank was born. The shareholders were us three former school friends.

- Out of the people who studied with you at school or University, how many have remained your friends or partners?

- The people your readers would recognise are Evgeny Ishchenko, who is still my friend; I keep in touch with Mikhail Abyzov, who was in my year at the boarding school. Dmitry Strezhnev is the head and shareholder of EuroChem. The rest of my friends from school and student times have nothing to do with business.

- Did you meet Oleg Deripaska at Moscow State University Physics Faculty as well?

- Yes, he was in the same year as Kuznetsov and Strezhnev. Oleg and I never participated in any joint ventures together. But I hope we'll keep bumping into each other. For example, his companies were clients of MDM Bank. At the moment, his companies are using the electric power produced by SGK (Siberian Generating Company).

- They say that Deripaska is not easy to negotiate with. What was your experience of such negotiations? Many are unhappy about his position on power prices, to take your example.

- We haven't had any conflicts.

- How accurate is the information that the bank's shareholders included [Alexander] Mamut, Deripaska, [Anton] Malevsky, [Iskander] Makhmudov?

- None of them have ever had any interests in the bank. MDM's original shareholders were Ishchenko, Kuznetsov, and Melnichenko. In 1997, I bought their shares. They chose a different path, got elected Duma MPs, went into politics and left business. In 2003, I sold 50% of my MDM shares to Sergey Popov. There have been a number of shareholders there since 2007, but I no longer have anything to do with it.

- But Mamut was the head of the bank's Supervisory Council, and Deripaska was a member of the board...

- We've had various well-known and famous people working for us over the years. Mamut was at one point the head of the Supervisory Council, and he did a lot of good for the bank, but I reiterate that he was never a shareholder. Sasha and I have known one another since 1994. He was interested in working for the bank, and I was extremely interested in working with him. We sat down and we made a deal. I don't believe either he or I have had reasons to regret the results.

- And how did you meet him?

- Oh, I don't think I can remember, it was a very long time ago.

- What about Sergey Popov?

- We were working out at the same gym, and that is where we met.

- A gym... By the way, there is an advert for a fitness club right outside the entrance to your office. I wonder if we should try it, in case we meet a potential partner, maybe to start a business together... Seriously though, what did you see in Sergey?

- We were friends, and we had qualities that complemented each other. We found it easy to understand each other. We had similar interests and goals. I was in the finance business so I knew certain things about that. He was in the trading business, so he had a better understanding of other matters.

- That meeting in the gym brought you together for many years and determined the way your business and your lives would go after that. Could you specify what Sergey's occupation was before he met you?

- This is a question for Sergey. In 1997, I invited him to work for an MDM subsidiary which was trading in the bank's non-core assets and constructing various trade and finance chains. Soon came the financial crisis with which MDM coped very well. MDM had liquidity and capital, we gained a lot of new clients, including those facing a difficult financial situation. By 2000, Sergey and I started thinking of a larger venture. We created a joint company in which we had 50% each, in order to manage investments in industrial assets. We called it MDM Group.

- Do you view the corporate war with Alfa as a positive experience? Did this situation make an impact on you personally? What conclusions did you draw for yourself?

- I think so. This was an episode which definitely played its part in the history of MDM Group's development. After we gained control over Konversbank, I was feeling much more confident about matters of corporate governance and law enforcement which had not been clear to me before, which helped me a lot in my later work.

- Are you concerned about the fact that the name of Konversbank is now associated with a row in the Baltics?

- We sold Konversbank almost as soon as we had consolidated the controlling interest. That was 10 years ago. I was not exactly interested in the goals set by the new owner during that time. I have never even seen him, to be honest.

- How did you divide your authority with Mr Popov while that project was under way?

- At first, Sergey was in charge of MDM Group. My role was reduced to providing the funding and interacting with established regional and federal players. Also I continued to manage the banking business until 2003. By 2003, MDM Group had completed its main acquisitions, and these were used to form EuroChem, SUEK, and TMK. When that stage was largely finished and it was time to shape up these acquired assets, I became the head of MDM Group.

- So the tough negotiating position that MDM was famous for at the time was down to Popov?

- It's hard to say what is down to whom. Because of our capital structure, we were always making all key decisions together.

- Why did you go for power-generating rather than coking coal?

- Coking coal is tied to metallurgy, and this at the time already meant a different value and concentration of such assets. Power-generating coal was a disaster, because the energy sector was a disaster, payments were largely made based on various in-kind schemes, sometimes using rather unconventional payment units. Felt boots or chocolates, things like that... As a result, the cash collected by the energy sector was

used to pay wages or taxes. The rest was used to settle with their suppliers in the coal industry. This resulted in the dire financial state of the industry and the corresponding attitude to it.

- So did you pay for your assets with chocolates?

- We mostly paid for them with cash. But not large amounts of cash, mind, because these assets at the time were not businesses but more like your right to work. So the hope was that logic and common sense would prevail at some point. And this is in fact what happened. More competent people came to the energy sector, and the economy of the country as a whole improved. So reasonable processes were underway. Consumers started paying in ways other than chocolates, and then the chocolates were out of the picture. This means that fuel providers were making money as well. Life was back on track.

- How much did you spend on these assets?

- Around \$1 billion. I can't be more precise because it took dozens of different deals to build structures such as EuroChem, SUEK, and TMK. We did not buy these companies whole, they had not existed before. Out of the dozens of industrial facilities we bought, I remember that only one purchase was a straightforward transaction of buying the controlling interest from the owner. The rest were a result of hard work of consolidating diffused assets on the secondary market. MDM Group bought virtually nothing from the government as the major privatisation had ended years before we entered the market.

- When you and Popov were dividing your business, what was the value of each asset you used? And what is your estimate of the current value of EuroChem, SUEK, SGK? And what is the growth potential for the value of each of these companies?

- In 2007, Sergey bought my 50% stake in MDM Bank by paying with 50% of shares in EuroChem and a certain amount in cash. The specific terms and conditions of our deal are confidential. Only the market can provide an evaluation of asset value at the time when an asset is on offer on the market in one way or another, so I try not to dream up abstractions. If there are transactions, we will find out the value. As for potential for growth, it's definitely there. Our companies are leaders both in fertilisers and in coal, and the same applies to the rate of development. SGK's potential is the most interesting as relatively small amounts can be used to bring about major changes if a reasonable regulatory network is put in place.

- Why did you decide to divide your business with Sergey Popov?

- The obligatory condition for any major venture is the availability of a clear and straightforward decision-making mechanism. If the algorithm is complicated, problems do not get solved and development slows down. When Popov and I started our business, we were 25 years old. We were not bothered about such matters at the time.

- There is always a reason when partners decide to split up.

- We had a difficult kind of partnership: 50 to 50. There is no simple decision-making algorithm in such a partnership. I think one thing, he thinks another. What can we do? Sergey and I have never fallen out or rowed, and I don't think we are likely to do that. When we realised we had different points of view, we simply put off the decision until later. This helped us to retain our sound minds, but it started to hamper the development of our companies. We had a structural reason rather than a personal one. So we reached a reasonable solution.

- Is Sergey going to remain a SUEK shareholder for long?

- You should ask him. It's his right to remain as long as he sees fit.

- What kind of relationship do you have with Popov at the moment? Did you split up amicably and remain friends? When was the last time you saw him?

- We have retained a trusting and friendly relationship. I last saw him in early March, we were having dinner with friends and family.

- Why did you decide to exit the pipe business?

- Primarily for financial reasons. Our banking experience made us very cautious in matters of debt and liquidity, and the sale of TMK (Pipe Metallurgical Company) made our financial position very decent indeed.

- What routes of developing your core assets do you envisage?

- EuroChem is growing according to the vertically integrated company model. We are producing our own raw materials, gas and phosphates. We will be looking at ways of expanding the share of our own gas and aim to become self-sufficient when it comes to raw phosphates. We have launched a major phosphate project in Kazakhstan.

We are constructing two large potassium factories with a planned overall capacity of 8 million tons a year. Out of these, we will only be able to process 1 million a year. This makes us look closely at the possibility of launching a separate potassium business, distinct from EuroChem. We are thinking about it at the moment. Our three potassium and three phosphate enterprises produce a wide range of fertilisers, from very simple to very smart ones. Four plants are in Russia, and two are in the EU. Our key markets are Russia, Ukraine, Belarus, and Europe. We are not aiming to increase our share in Russia too much; 30% is a reasonable limit. In the mid-term, EuroChem is looking at a major expansion on European markets. Our main rivals are foreign companies who are supplying the same market. It's not enough for us to be more competitive than other Russian producers. In March, we closed a deal and bought a large potassium producing facility in Belgium, and we are starting to build our own distribution network in Europe. In the mid-term perspective, we should look at potential ways of integrating our operations in terms of production and distribution with similar operations of foreign companies which have a different geography of their production facilities. Over the period between 2012 and 2020, EuroChem is planning to invest on average \$1.5 billion a year in its own organic growth projects.

- What shape may this integration take?

- It's hard to say. Globalisation in our sector is quite a new phenomenon, so there are no properly large companies in the sector yet. And fewer still are prepared to fully merge their assets with EuroChem's assets. It is likely that we'll have to search for less evident forms of cooperation. Some sort of alliance, association – life is complicated. But we definitely have to be part of the globalisation of the sector.

- But this is not a matter for the immediate future?

- It may happen over the next few years. But it won't involve Russian companies because it won't help us to reach our main objectives. The first one is the diversification of different types of raw materials, so that our portfolio includes different types of gas, different phosphates, different potassium. The second objective is to diversify the geography of our processing assets. Gaining new capacities in Russia is not going to change anything for us.

- What will happen to SUEK?

- SUEK also consists of two businesses. The lignite business is where we produce brown coal and supply it to Siberian power plants. And there is the hard coal production for supplying the Russian and foreign markets. The Russian market is not growing in terms of generation, which means that the demand for coal is not growing either. Our share there is quite considerable, and we don't want to increase it. Our exports will grow. But we need to be competitive for that. Over the next five years, six preparation plants will undergo a comprehensive modernisation or will be built from scratch, with the total capacity of up to 30 million tons a year. Since we are located in Central Russia, we can move both East and West. We'll be expanding in both directions. At the moment, SUEK is selling a little under 100 million tons of coal, around a third of which is exported. I think that these ratios will be changing so that the share of export

will grow. In Europe, we don't want to go over 10% of the market. The costs of delivering the coal to the market are as important to us as the production costs. We'll be supplying the Atlantic part of Europe, primarily from Murmansk, and we'll also take part in the construction of the Taman port to make ourselves more competitive on the Mediterranean market, if the infrastructural costs are reasonable. The resource base for these markets are our extracting facilities in the Kuzbass and Khakassia.

- Is your share in the Murmansk Commercial Sea Port 20% The seller claims that they have been paid for as much as 60%. Have you got any partners there that have not been named before? Such as SDS Coal which originally had plans for the port?

- We have no industrial partners in the MCSP venture, only financial ones.

- What are your plans for eastward development?

- Everything is different in the East, there is a vast, rapidly growing market there, and there is place for the Russian coal. But there is another problem, how to get there. You get stuck with the restrictions imposed within the country. SUEK's main task is to coordinate plans with Russian Railways and the government as to what it will be like in the future. And this is what we are actually doing at the moment. SUEK's investment programme up to 2015 will be in the region of \$3.5 billion, and a considerable part of it will be used in Eastern Siberia and the Far East. Substantial investments will be made into our extraction facilities in Khabarovsk and Transbaikal regions, and we'll continue to invest in our own port facilities. We'll keep increasing the share of our own rolling stock of gondola cars to service our traffic.

- Have you had any problems with Russian Railways so far?

- We have reasonable working relations. You have no problems when people are not doing any work. On the whole, we are satisfied with the level of our communication with Russian Railways.

- Did the amount of problems increase after Vladimir Lisin gained control over Freight One?

- No. I am sure that Mr Lisin is a competent man and that everything is going to be fine. We are Freight One's major customer, and it's good news for us that the company now has a long-term smart owner.

- What are your plans to increase production?

- This is a question that should be put to the government rather than us, so that it makes up its mind as to how much railway infrastructure it plans to put in place in the East, who is going to pay for it and what conditions there will be on its use. So far, the amounts of freight proposed by various consignors and Russian Railways' plans are not entirely consistent. When these things are clearer, we can go and start doing some real work. By definition, we have more plans and capabilities for the Eastern direction than the potential volume of railroad infrastructure which is available to use at competitive prices.

- About SUEK's brown coal business.

- These assets were acquired at the time as part of the strategy of building a vertically integrated coal energy company. The name itself, the Siberian Coal Energy Company, was determined by the initial development strategy. The possible synergies of this integration are still here. I am convinced that brown coal assets should in time be integrated on a corporate level with their consumers, i.e. the generating plants. We'll look at the prospects of transferring some of SUEK's assets to SGK. It is possible that some of the assets will be transferred to third-party energy companies. We've already had a precedent in 2008, when Vostsibugol was sold to its largest consumer, Irkutskenergo. Unfortunately, the financial position of Siberian power plants and the large-scale projects they are implementing under CDAs [capacity delivery agreements] do not at the moment make it possible for us to seriously consider such investments. But this time will definitely come.

- Do you believe that Russia will go through a consolidation of the coal industry in the future? Who may end up as the owner?

- I think that the market still allows for 1-2 major coal companies to be created, mostly by consolidating diffused players. As for SUEK, the above-mentioned market restrictions on the Russian, European, and Asian markets and our current shares of each of those markets mean that I see no need for a substantial growth by means of new acquisitions at the moment.

- About the energy industry. Yours is not the largest company out there. Are you planning to expand it or downsize it?

- First of all, let us establish which assets form part of the SGK at the moment. The implementation of the CDA programme alone requires an investment of \$ 3 billion from the company. These are all new construction projects, from scratch. A short time ago, we launched a new facility in Krasnoyarsk, the Krasnoyarsk TPP-3 with the capacity of 208 megawatts. Organising such operations puts a great strain on the management. And the company is still quite young. And one can hardly call the current investment climate in the energy sector transparent at the moment. The thermal energy industry can be roughly subdivided into the segment that is comprehensible to investors, i.e. the CDA, and the segment where nothing is clear, i.e. everything else. Unfortunately, the unclear part is much larger than the clear part at the moment. Siberia's total capacity for heat generation is 24,900 MW. SGK, with its 12 TPPs and 4 GRES, accounts for 29% of that. By 2015, this capacity will increase to 27,000 MW, of which SGK will cover 14%. From the point of view of generators, the CDAs are a business which creates clear incentive mechanisms for rational and economically motivated actions. An uneasy compromise was brokered between generators and consumers, in which the state played an important part, with regard to the minimum acceptable ROI for the capital invested in CDA projects. The generators' direct interest in complying with the standard construction costs and contractual launch timelines has also been determined. The result was a serious constructive process, which has cost over 1 trillion roubles for the country as a whole. At the moment, we have nearly got rid of the legacy of the state-owned RAO UES which was represented by irresponsible contractors and other parasites who did not generate value; we have largely restored the maintenance system which had been essentially destroyed, we have created, practically on the fly, the largest own repair and construction facilities which employ over 4,500 people in total. We have established relations with the banks in order to raise the required funds. The CDA programme that is under way will provide electric power for the economic growth precisely where it will be critically needed. There is no doubt that we will accomplish this, just like last decade, when we were able to transform the depressive coal mines and notionally functional chemical giants into modern viable enterprises. But the situation with most thermal generation, which is not covered by the CDA framework, is absurd.

- Why is it absurd?

- A TPP under heat load produces 1.4 MW/h of electricity per ton of coal burned and 2.2 Gcal of heat. The same amount of electricity (1.4 MW/h) can be produced on 0.75 tons of coal at a GRES. To produce the same heat (2.2 Gcal) though, you'd need an additional 0.5 tons of coal. This means that to produce the same amount of product separately at the GRES and the boiler station, you have to use 25% more energy products than at a TPP. The TPPs are in competition with the GRES on the electric power market, and on the heating supply market they are competing with boiler stations. Reason dictates that the more efficient market player must be more profitable, these are the facilities that have to be the most vibrant and attract the most investments. But that's not how it is.

- Why not?

- In the mid-1990s, a boring accounting document was produced which divided the costs of heat and energy production so that heat ended up being a little cheaper (about twice cheaper at the moment than at an alternative boiler station) and electricity ended up being a little more expensive (by approximately 15% and more than at a GRES). In 2011, the search for mechanisms for capping the rising consumer electricity prices caused our regulator to take the decision to return to the tariff regulation system for Siberia's more expensive generators. This accounting blunder means that the cheapest power plants were recorded as the most expensive ones. Then there was a real disaster with the TPPs under the pretext of consumer interest protection. In order to punish the TPPs designated as inefficient and their poor owners,

the regulatory methodology deliberately excluded the possibility that they may be drawing some profits, since earnings are now formed exclusively in order to cover current production costs. No dividends are of course envisaged. A great business: you are efficient, you are called an idiot, and told that since you are an idiot, you have to work better, and you are prohibited from making a profit. It's my first time working in a business like that, I find it fascinating. Now tell me what an economically aware investor is to do in the energy sector if he is officially prohibited from making money? Not that he has fallen on hard times, he is legally banned from doing it. Should he start stealing? We are not kleptomaniacs though. This is some psychiatric deviation. But sooner or later, any stupidity will reach its rational conclusion. Because no-one has a way out. Sooner or later, things will fall into place.

- The question is, how soon or how late?

- If you don't repair your car, it will fall apart. The same applies to power plants. You've tidied up 1/6 of them, and 5/6 are still all over the place. Things will get worse. At some stage, you'll end up paying a very different sort of money for it all. To impose order now, we have to double the TPP tariffs, which means a rise of 12% for consumers in Siberia, which is not very much. What will happen if we wait until these TPPs no longer exist? Then we'll need to increase Siberian prices three times. We are now surviving as debtors of the energy facilities. Who will pay for this? The consumers. Why aren't they nervous about it? They think that the government will shoulder the burden. Speaking of "selling and buying", it costs around \$20 billion to build a new SGK. This is the current price of building a new station. We are well aware of what makes the cost of an old chemical plant or a coal mine that has not been modernised. The difference is 20-30% because the net cost is a little worse, the lifetime is a little shorter. But not 20 times! It's unlike anything I've seen before. Sooner or later, this discrepancy will lead to something rational. Sooner or later, common sense will prevail, and it will be clear that if a producer is 20% more efficient, they have to draw 25% more profit. In the privatised segment of the business, drawing a profit will sooner or later cease to be a crime. And then everything will be different.

- What is the thinking behind your idea of reorganising the SGK?

- We are dividing it all between legal entities so that each of them has its own balance sheet, profits and losses. We need to make our assets more transparent for our own sakes, for the regulator's sake, or there can be no constructive dialogue with the authorities. The second thing is that some of these assets are likely to be sold, and some other assets are likely to be bought. The configuration of assets will be changing, just as it changed at SUEK. This is the initial period of life. This is what EuroChem went through ten years ago.

- Why do you think it is too early to hold an IPO of EuroChem and SUEK?

- At EuroChem, we need either to complete the potassium project first or to separate the potassium projects from EuroChem. Then there won't be a reason not to do it, and it will be a matter of the need for cash and the market conditions. I only got a controlling stake in SUEK last year. I see the need to make adjustments to the strategy, which will take some time. The finished product for the market as I see it is not ready yet.

- We haven't heard much about you in recent years. After you and Mr Popov divided up the business, it seemed as though you have started to spend more time abroad.

- In each of the companies I own, I am Chairman of the Board. We hold board meetings on average once every six weeks. I keep in much more regular contact with General Directors and a number of other key managers. When all is said and done, I am more of an investor than a manager. It's not my job to explain the companies' positions to external audiences. What I am interested in is for my investments to be effective and for my companies to hold appropriate positions in the relevant industries, for us to have a high ROI for our capital, low incident levels, high levels of environmental friendliness, low net costs, high diversification of new products. I am not concerned about many other issues. My tasks are consistent with my capabilities. I am a shareholder. And as a shareholder, I can choose manager, create an appropriate system of incentives for them, approve or disapprove some of their decisions. What is it that I won't do? I won't destroy the system which is already in place and that I have helped build. There is no

system when you don't know who is in charge of what, me or the managers... This is pointless, and I don't want to do pointless things, I don't have the time for it. The system in a private company is that professionals are doing their jobs, other professionals are monitoring them, the shareholder is keeping idiots away from work and encourages professionals by creating an appropriate system of incentives and monitors the implementation of this system, as well as the required ethical elements – and then all is well.

- Many business people experienced some problems during the crisis. How did the downturn affect you personally as the owner of assets? Did you have any debts? If so, how did you manage to reach an arrangement with the banks? Which one had the toughest position?

- From the financial point of view, I am a relatively conservative investor. And this is the position I support in my portfolio companies. Neither my companies nor I had any problems during the crisis. No undertakings we had made to the banks prior to the crisis were either broken or restructured.

- In SUEK and EuroChem, General Directors are also co-owners. Do they have an option to increase their stakes?

- No.

- Speaking of management incentives, I wonder if SUEK is going to have its own dividend policy?

- At the moment, we are private companies. One of the advantages of this situation is greater flexibility. SUEK and EuroChem are companies going through the robust investment period. It is not advisable to take on strict obligations on dividend payment at such a time. Furthermore, I see no connection between a dividend policy and the management incentive system.

- What assets have you got apart from EuroChem, SUEK, and SGK?

- Nothing comparable in terms of size, I've got a number of portfolio investments. Larger ones include around a third of shares in the DEK (Far East Energy Company), a blocking interest in IDGC of Siberia, a substantial stake in Rushydro. These assets were largely the outcome of a number of deals made during the restructuring of RAO UES of Russia. In terms of foreign assets, I have less than 10% in the German potassium company K+S.

- Do you invest in anything other than shares?

- Not as a regular business, no.

- Why don't you expand your asset portfolio? Or why don't you invest your personal funds in buying shares on the market that will definitely grow in price and bring you a profit as an investor?

- On the contrary, I am mostly investing my personal funds in shares, the shares of EuroChem, SUEK, and SGK. I agree with your conclusion: share prices on the market should definitely grow, especially if these joint-stock companies are reasonably managed with a view to increase the value of the share capital. EuroChem invests around \$1.5 billion in organic growth each year, SUEK invests around \$800 thousand, and so does SGK. This means an expansion of assets by around \$3 billion per year. We are also buying assets created by third parties.

Over a year, EuroChem has bought a plant from BASF and a gas company, which cost around \$ 1.5 billion. With SUEK, it's the Murmansk Port and the Apsat field.

How much more can it get? The real restriction of growth here is the financial one; the debt to EBITDA ratio at EuroChem is currently around 1.4 and at SUEK around 1.8. We don't want to take excessive risks.

As for new industries over the last five years. Gas, potassium, ports, railway transportation, electricity and heat supply, industrial construction... It looks like it's enough. Believe me, my personal funds are not just

lying idle. I bought considerable stakes in SUEK and SGK from Popov in September, remember, and just a few days ago I arranged to buy the rest of his SGK interest from him.

The dividends received over the past five years have mostly been spent on buying Popov's stakes and the interest in K+S. I am not prepared to predict what would be the best way of investing free capital at this precise moment in time, so I try not to think about it too much.

- Your companies operate in different countries of the world. Where is the investment climate most favourable?

- Everywhere is different. True, Russian bureaucracy is dire. But European bureaucracy is fairly problematic too. In Kazakhstan, too, there are special local quirks. In every country, governments change once in a while, you've got one person dealing with you, then another. Just like you, I read the papers and I can see that Russia has one rating, Kazakhstan has another. But I cannot really compare them based on my own experience. We are implementing projects in Russia, and somehow they come to pass, they start and they get completed. We haven't yet done much in Kazakhstan, but we think we'll get things done there as well. In Lithuania, we've bought a plant which had long been operated by Americans. We have another, very similar plant which was also built in the Soviet times, like the first one, but that one is located in Russia. We saw a striking difference in 2002. In one of them, everything was brilliant, and the other one was all smoke and mirrors. Do we see a major difference now? Not really. Can we function normally with all those rules and red tape? Yes, we can. Does it occasionally take long to accomplish straightforward things in Europe? Yes, it does. Are there problems with obtaining a permit to develop a production facility? Depends on what kind of facility. It may be easier to open a booth in Poland, but I reckon it's easier to build a plant in Russia. Try building a chemical plant in Germany. No chance. As for building one in Russia, you've got that chance. We are implementing large-scale projects. In principle, large projects are always viewed more favourably.

- Nevertheless, where have you been living these past few years? How much time are you spending abroad?

- My main home is near Moscow. As for my private life, I've promised an exclusive revelation to the yellow press (just kidding!).

- OK, let's pretend we are the yellow press, or maybe nearly yellow, beige perhaps. Vedomosti is published on coloured paper in that shade.

- I sincerely believe that the important thing is not attendance but results. Do you remember school? We had marks for behaviour, for effort, and the rest. At University and at boarding school there were no marks for behaviour or effort, just for academic progress. And there is a lot of sense in that. I believe the same approach should be applied to any other activity. With children, you can talk about the effort they are making. But when you are older, you are more concerned about results. If I am a businessman, my result is the performance of my companies. Everything in between is effort, which is a stupid thing that I did not even discuss with teachers at my school, I was always ok with the lowest mark.

- What about good behaviour?

- One should always (when one is already of age) try to get top marks for good behaviour. One has to conform to the conditions of the environment around. One must not hurt anyone. But I am really not prepared to discuss my private life in public.

- What do you mean by "private life"?

- Where I live, how I spend my day, where I travel to, what I do in my free time – all of this I call my private life. I feel happy in this life. There is a part of my life that I don't need to share with anyone. I am not a celebrity, I am not paid to be recognised. I don't want to be admitted to clubs without a ticket.

- How do you see your future as a businessman?

- I do what I find interesting. I think that the subsequent logical evolution of EuroChem, SUEK, and SGK will not leave me without an exciting job.
- Let's talk about your hobbies.
- Let's. What can I say about them?
- We don't know, but you do. Have you got any hobbies?
- I go to the gym, I go skiing. This is all as far as recreational activity is concerned.
- Have you tried snowboarding?
- I don't like snowboarding. I learned to ski when I was younger, and I like that. I am good at skiing, and I am not so good at snowboarding. I don't enjoy it and I am too lazy to learn again.
- Is there anything you regret?
- The main resource is time. I have wasted some of the time I had. When you know you want to spend time so that there is an outcome, it's fine regardless of whether that outcome is positive or negative. The worst thing is to waste time needlessly, no matter in what area.
- Are you apolitical?
- Yes, I am. But I am very interested in things being fine in the country, as good as possible. Everyone has to be happy.
- And is the emergence of a new opposition a good thing?
- I think that whenever any system becomes more complex and includes more options, it's always a good thing for all the parts of the system.
- Do you vote in elections?
- Not always, but I did this time round.
- What is the most important thing in life for you?
- There has to be a balance, there mustn't be just one most important thing. Any disproportion is bad.