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## **Meeting with Kirill Seleznev, member of Gazprom's Management Committee and responsible for Gazprom's energy assets**

On Wednesday, a meeting was held between analysts and Kirill Seleznev – who is a member of Gazprom's Management Committee, Head of the Marketing Department for processing gas and liquid hydrocarbons, Director General of OOO Mezhhregiongaz and also responsible for Gazprom's energy assets. The purpose of the meeting was to inform investors of Gazprom's strategy regarding its energy assets. In addition, Seleznev also addressed issues such as domestic gas supplies and the current conditions of the gas distribution industry.

Seleznev commented on the potential establishment of a joint venture between Gazprom and SUEK. He said that this will be discussed in Gazprom's Board meeting in December. At the moment, Deloitte is evaluating the assets to be included in the future joint venture. We assume that SUEK will contribute its coal and energy assets (in particular, its stakes in TGC-12 and TGC-13) to the joint venture, whilst Gazprom will invest its 10.5% stake in UES. (This will consist of shares in UES if the joint venture is formed before July 1, 2008; otherwise it will consist of shares in WGC-2 and WGC-6.) We note that Gazprom took advantage of the right granted to it by UES – to swap various blocks of shares allocated to Gazprom in the WGCs and TGCs spun off by UES for larger stakes in the (spun-off) companies of its choice. As a result, after the restructuring, Gazprom will obtain close to controlling stakes in WGC-2 and WGC-6. These blocks will be diluted as a result of the SPOs, which the companies will conduct in order to increase their capital. Mr. Seleznev confirmed that Gazprom intends to gain control over these companies. Gazprom has already acquired a controlling stake in WGC-2 by buying part of the shares offered during its recent IPO. We think that Gazprom will do the same with WGC-6. Seleznev added that Gazprom would prefer to avoid the need to make a mandatory offer to the minority shareholders of WGC-2 and WGC-6 after it acquires more than 50% of the companies' shares.

Gazprom will obtain a controlling stake in the joint venture with SUEK. However, its stake may be reduced after its planned IPO – Mr Seleznev confirmed that an IPO has been planned for the joint venture. He added that as a result of the IPO, Gazprom and SUEK's stakes in the joint venture will be reduced on a pro rata basis.

Gazprom will not transfer its controlling stake in TGC-1 or its stake in Mosenergo (TGC-3) to the joint venture. Gazprom still considers Volga TGC (TGC-7) as an extremely attractive asset and is exploring opportunities to acquire a stake in it. Integrated Energy Systems (controlled by Viktor Vekselberg) holds a 23% stake in the company.

Gazprom's stake in the Federal Grid Company (FGC), which it will receive as a result of UES' restructuring, is likely to be sold. Mr. Seleznev mentioned the existence of an optional agreement with FGC on buying out Gazprom's stake. He indicated that Gazprom may also sell its stakes in MRSK and INTER RAO, (which it will also receive as a result of the restructuring). At the same time, Gazprom is extremely interested in the Far Eastern Energy Company, as well as Kamchatskenergo. The latter is expected to conduct an IPO in favour of its strategic investor, which is likely to be Gazprom. Kamchatskenergo will invest the funds raised via the IPO to purchase Kamchatskgazprom, which will develop gas fields in Kamchatka in order to deliver fuel to local TPPs.

During the meeting, Seleznev pointed out that Gazprom is interested in Moscow's heat and electric energy grid companies and is prepared to influence old and new key consumers in the Moscow region.

Seleznev also spoke of the possibility of establishing a unified energy holding, which will include all of Gazprom's assets; however, at the moment, it is not clear how this fits in with its plans to create a joint venture with SUEK.

Following consolidation of the energy assets, Gazprom intends to reduce its operating costs and improve its management strategy by streamlining its fuel balance (coal, gas, and fuel oil) and also by achieving greater profitability from its other assets, as a result of the liberalisation of gas prices in Russia.

Mr. Seleznev also emphasized that Gazprom is determined to transform itself from an oil & gas company into a global energy company and increasing its capitalisation.

Towards the end of the meeting, Seleznev spoke about the inter-regional Mezhhregiongaz gas exchange. He said that the exchange will help large consumers avoid overpayment for insufficient or excessive gas supplies, as they will be able to sell or buy gas on the exchange. Trading on the exchange is more profitable for consumers than paying large penalties under new agreements, which are based on a take or pay principle.

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