

Novatek's Largest Shareholder Is Its CEO

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Mikhelson, seen standing at center, owns a 27 percent share of the gas company, valued at nearly \$10 billion. **Denis Grishkin**

Novatek's longtime CEO Leonid Mikhelson is also the gas producer's largest shareholder with a stake of 27.17 percent, which combined with Gennady Timchenko's 23.49 percent gives the businessmen a controlling stake, Vedomosti has learned.

Novatek has not disclosed Mikhelson's stake since the company's initial public offering in 2005. Since then, the largest stakeholder was believed to be Timchenko's investment fund Volga Resources, which said in 2008 that it had built up a stake of 23.49 percent.

As it turned out, however, Mikhelson's stake was even larger. Both personally and through firms he controls, the businessman owns 27.17 percent, a Novatek spokesperson said. Based on Monday's price on the London Stock Exchange, the shares are worth \$9.9 billion.

The stake would also allow Mikhelson to block major deals on reorganizing the company and so forth, although he has never done so.

For years, Novatek was controlled by management, with the largest stake — at 35.5 percent in 2005 — belonging to Mikhelson. Their holdings were reduced in the IPO and then again when a 19.4 percent stake was sold to state-run Gazprom in 2006. After a number of other deals between Novatek managers and Timchenko, the market was unable to tell whether the company had a controlling shareholder, Bank of Moscow analyst Denis Borisov said.

Now it appears that Mikhelson and Timchenko, who own a combined 50.66 percent, are the controlling shareholders. Additionally, a company they jointly control has an option to buy 9.4 percent of Novatek from Gazprombank by the end of 2012. Gazprom now owns 9.99 percent.

The situation around Volga's stake is less clear, however. In July, the fund said it had built up a stake of 23.13 percent in Novatek through the Cyprus-registered White Seal Holdings and Russian-registered OOO Santata with plans to raise the stake to 23.49 percent, which the Federal Anti-Monopoly Service has approved. Spokespeople for Timchenko have said he does not plan to buy additional shares.

According to data from the Uniform State Register of Legal Entities, on Oct. 27 White Seal became the owner of another Novatek shareholder, OOO Belona, which had 6.2 percent as of the end of September. Together, White Seal, Santata and Belona should have 29.3 percent of Novatek.

A spokesperson for Volga insists that fund still only controls 23.49 percent through Santata and White Seal. A spokesperson for Novatek said Volga owns 23.49 percent through White Seal, Santata and Belona and has never controlled more than that.

It's possible that Timchenko has taken on a partner in White Seal, a source close to Novatek said. The spokesperson for Volga declined to comment on the matter. But a Novatek spokesperson said that none of the company's management has stakes in Volga or any companies controlled by Timchenko's fund.

It first became known that Timchenko was a Novatek shareholder in October 2008. Since then, No. 2 gas producer Novatek has become a real competitor to Gazprom, even by the admission of Gazprom officials.

Since 2009, Novatek has purchased several oil and gas assets for \$1.9 billion (excluding debt and options), has more than doubled its reserves, has taken several clients from Gazprom and has received tax breaks for its liquefied natural gas project in Yamal. In October, the company surpassed its record pre-crisis market capitalization of \$29 billion.

Mikhelson's and Timchenko's interests are clearly aligned at the moment, said Alex Fak, an analyst at Troika Dialog. If they decide to part ways, Mikhelson could sell his shares to Timchenko, Borisov said.

A source at Gazprom said the topic was coming because Mikhelson last week agreed to purchase the rights to 50 percent of petrochemicals firm Sibur from Gazprombank, while planning to eventually buy 100 percent. Sibur was valued at \$7.5 billion excluding debt.

Selling at least some of his Novatek shares would be a logical way for Mikhelson to finance the

deal, said Borisov and the Gazprom source.

Novatek brushed off the suggestion, however. Despite Mikhelson's plans to buy an asset as large as Sibur, the businessman isn't planning to leave as CEO and "intends to keep his influence over the company as a key shareholder," the Novatek spokesperson said.

There are no requirements or agreements for Mikhelson's firms to sell Novatek shares to Volga, the spokesman said.

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