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Глобалисты  
делят  
Россию **14**

Альберт Шигабутдинов

**Главный инвестор  
Татарстана**

### Рейтинги:

Продавцов лекарств — **30** — Аптеки теснят дистрибьюторов  
Книготорговцев — **40** — Книжных магазинов не хватает  
Торговых сетей — **48** — Появились продуктовые бутики

MAGAZINE ABOUT REAL BUSINESS

# Direct Investments

December 2004

# Albert Shigaboutdinov: «We invest in the projects significant for the economy of Tatarstan»

*Today, «TAIF» Group is a diversified holding structure that consolidates investment, telecommunication, refinery, petrochemical, construction, and other companies of the Republic of Tatarstan with the total staff on the payroll over 15 thousand of people. But there were only three people working in the company just several years ago. The company supplied the Tatarstan population with different necessary goods at the time, when people suffered from lack of them. PSC «TAIF» General Director discussed the metamorphoses and the specific nature of doing business in Tatarstan, the large-scale reconstruction of one of the pearls of TAIF GROUP, i.e. OJSC «Kazanorgsintez», on the round table organized by «Vesti» magazine.*



**Everything can be sold  
but price is the question**

**– What lines of activity have the highest priority for TAIF Group of Companies?**

– There is no definite answer for this question. Today, TAIF GROUP consists of over 30 subsidiary companies. All these companies can be divided generally into five groups: investments, building and construction, telecommunications, services, and the most important sector – oil refining, chemicals and petrochemicals. First of all, we are aimed to invest into such segments of economy whose slow development or underdevelopment put the breaks on the market transformations. Of course, investments made through the stock market had a special importance because stock market is a blood system of economy providing the successful development of industry, an increase in wages and salaries, and, in the long run, leads to the prosperity of people. The largest petrochemical companies of the CIS and Europe, like for example «Nizhnekamskneftekhim» and «Kazanorgsintez», are concentrated in Tatarstan. But the increase in volumes and quality of the goods produced by these companies are impossible without the substantial modernization of manufacturing technologies,

PSC «TAIF» was registered with the Ministry of Finance of the Republic of Tatarstan in August 1995. Today, TAIF GROUP of Companies is a diversified structure that consolidates the companies operating in the spheres of telecommunication and refining, building and construction, stock market, banking, customs, insurance services – altogether over 30 subsidiary and associated companies. The most well-known companies of the GROUP are the following: «TAIF-Invest», «Karsar», «Avers» Bank, «Kazanorgsintez», CJSC «TAIF-NK», TVT and Radio Broadcasting Company «TVT» and Chemical Plant named after Karpov. All companies are closely linked with one another by finance, technical, technological, management and other aspects. The issued share capital of PSC «TAIF» is divided between NKS Trading with its 36.3% share, LLC «Transport» – 19.9%, LLC «Vulkan» – 19.9%, LLC «NIRA-export» – 10.2%, and other shareholders with 13.7%.



thus the need for investments is obvious. That is why our initial task was to develop the tools and infrastructure of the local stock market. I can say that «TAIF» was established to solve this task.

We faced different obstacles on our way ahead, the problems that thwarted the development of our business. For example, the absence of operational communication means of high quality. We engaged in the foundation of the market of up-to-date telecommunication services including the multimedia ones. We presented the projects of mobile and station communication network, established the over-the-air and satellite television, the multimedia network with cable TV. Or, say, the problem of absence of developed building & construction facilities in Tatarstan that was revealed during the stage of modernization and construction of the primary distillation plant. We had to establish such a kind of companies, as well. And so, one thing was followed by another.

**Albert K. Shigaboutdinov** was born on November 12, 1952. In 1976, he graduated from the Kazan Aviation Institute. After graduation from the Kazan Aviation Institute in 1976 he started to work as an engineer at Special Design Bureau-5 engaged in research. Starting from the year 1979 he held the positions of the Deputy Director of «Narmonsky» state farm, the Head of the department and Deputy Director of Kazan city Baumansky District Food sales administration. In 1986, he headed the material supply base of Tatybprom association, and then from 1987 till 1991, he worked as Deputy Director General for construction, supply, and sales of the same organization.

In 1991, he was appointed the Director General of Foreign trade scientific and production association «Kazan». Since 1995, he has been holding the position of the Director General of TAIF Public Stock Corporation.



*The multimedia network of OJSC «TV and Radio Broadcasting Company «TVT» is able to provide its services for about 90% of the Tatarstan population*

The lack of skilled and professional employees had become another problem we have faced while developing the above mentioned lines. Our company developed the program of staff training that, among others, included the studies abroad. Later, the specialists prepared by us started leaving to Moscow and other countries. Salary wasn't the point here – we had always kept its competitive level. The main reason was that there weren't the conditions for normal habitation in the Republic at that moment: neither qualitative medical service, modern entertainment structure, range of products in the markets, nor services based on the respectful attitude.

– **Does it mean that people earned money but didn't have the goods and services to spend them for, right?**

– It's true. That time, the Republic experienced a range of domestic problems. That is why we decided to be engaged in the services sector, as well. We began building the housing complexes with good stores, protected territory, swimming-pools, hair-dressing salons, baths, etc. In 2002, the company constructed the well-known in Kazan cultural & entertainment complex «Pyramid» with multi-functional hall, restaurant, fitness-club,

health & beauty center, disco-club, bowling, bars & coffees. We also opened supermarkets after a western pattern, so that the goods bought could be paid for by plastic cards. Afterwards, we established one of the largest wholesale markets in the Volga region in order to stimulate the market trade. After this actions were made, our life became happier, or as one says, more joyful. Thus, our major projects became more realistic.

– **It comes that you organized something like a small state inside the state, right?**

– It isn't so, because everything that we do is for the benefit of the Republic and its people. It is notable that during the period of the company's development we were given a motto «Power for the common good». This is true. I can give you an example. We established a wholesale market, developed it, and sold for a small price – calculated mostly taking into account our expenses. As a result, any citizen of our Republic can make a business on wholesale or retail selling, as this market has finished warehouses for leasing. The same structure was used with office buildings: we built and gave for leasing 40 th sq. m of area for offices, thus, making this problem less severe. As part of the com-

pany's ideology, we sold our cellular operator to the leading cellular company in the market «MTS». At that time, «TAIF-TELCOM» invested significant funds and efforts to make this project successful, and finally it became self-sufficient. «Santel» financed itself by its own funds and earned profits. That is why we weren't against the idea of selling the company to such a professional team as MTS, especially considering the fact that nobody can take the established cellular network away from Tatarstan.

– **Do you always sell a business after it has been developed?**

– From the very beginning, the ideology of TAIF was described by the intention to organize new companies, essential for the further efficient development of the republican economy and the economy of TAIF Group of Companies, to develop this companies, to make them more profitable, and to resell them to new owners without bringing any damage to the company itself or the economy of Tatarstan. As a result, we receive possibility to proceed with other projects. We are ready to buy and to sell everything; the question is in price and the interests of our strategy.

– **What kind of projects are included into your short-term prospective?**

– The President of the Republic of Tatarstan declared that refining and petrochemicals represent the main growing point of the economy development, and we see our business developing in this direction

### **Phone call from the government**

– **What kind of conditions were underlying the establishment of your company and what marked the beginning?**

– Of course, «TAIF» wasn't established in one-day period. One should refer to the nineties of the previous century to discover the



*Cultural and Entertainment Complex «Pyramid» has become the specialty of Kazan*

beginning. If you remember, the Supreme Soviet of the USSR had taken a decision to give the right to work independently on local and foreign markets for the regions. Simply saying, they reduced pressure. Foreign Trade Scientific and Production Department «Kazan» was established in 1991 to use new possibilities. It received the right for production and trade activities. One of the company's founders was the administration of Kazan city. And even though this structure contributed nothing to the issued share capital of the company, it helped us to solve many arising issues. At the beginning, the staff of «Kazan» was represented by three people. First of all, we started the supply of goods for our empty shops. It happened so that the state-planned economy of the USSR with its central-

ized system of provision collapsed leaving the companies never engaged in the self-purchases of resources for production of finished goods in the new unusual conditions. The production system was broken, and within a year the half of all shops had become empty. There was really nothing – no socks, no sugar, no bread. We assisted our companies in selling the produced goods, i.e. rubber, gasoil, «KAMaz» trucks, while our trade companies started purchasing sugar, cigarettes, etc. The situation worsened so that the employees were leaving their working places, started striking with demand for cigarettes.

**– And how you managed to supply cigarettes and sugar? Have you made barter for rubber?**

– There was almost no barter in our business. We bought and

sold only for money. It is always the cheapest way and the most profitable one. We bought sugar from Ukraine and Germany or assisted the republican companies to purchase raw materials for their production. The deficit for cigarettes was very serious because the cigarettes producing companies worked with very low capacity. The cigarette company in Kazan was also producing very small volumes. We have bought the first lots of cigarettes from Yugoslavia and Bulgaria while Kazan cigarette producing company received some kind of relief. Later it organized the production of its cigarettes, including the well-known «Astra». The managers of the companies who had no cash asked me to give them cigarettes in change of rubber, tires, fuel in any volumes. We sold the pro-

#### Operational highlights TAI F Group of Companies

Index	2000	2001	2002	2003	E2004	Total (1996-2004)
Revenues, million Rubles	3,569	3,350	12,297	15,376	23,808	64,535
Net income, million Rubles	636	1,361	2,190	8,180	11,575	24,951
Capital investments, million Rubles	1,183	2,294	3,778	2,062	3,774	14,561
Staff on the payroll	2,755	3,957	11,929	15,468	15,139	
Tax accruals, million Rubles	65	641	1,868	2,038	2,758	8,747
ROA, %	12	18	15	32	32	



When we acquired «Kazanorgsintez» its capitalization was roughly \$40-50 mln, today, it is about \$300 mln.

duced goods of these companies; the earned money was returned to the companies while their managers could pay salaries and buy the same cigarettes. Maybe today it can be considered as small volumes of business but in early nineties we considered the securing of stable supply of goods to be an extremely important task, as people were in want of essential goods.

– **Did the joint work with the government of the Republic help to develop the company?**

– The government started paying serious attention to us in 1994. At that time, the government representatives treated all small companies, private investors, especially those who started their business from scratch, as cheats. Speaking about our company, it was included into governmental projects. We didn't speculate and never sold a 1 ruble product for 10 rubles. Each product has its market price, thus, the only thing we did was an agreement with a producer to sell the goods with our 5% commission charge. When we started to sell petrochemicals, we understood that an improvement of the quality and an increase of volumes of production would be a good idea. But the improvement of production technology of

petrochemicals and polyethylene requires investments. International banks didn't provide credit facilities without an independent appraisal of assets. The question was how to receive such a kind of appraisal because no one in the Republic was specialized in it. The government decided to intensify the work for the development of a complete stock market infrastructure – deposit, audit, appraisal, registrar, consulting, and other services necessary to raise investments for the country's economy. «TAIF» was established on this basis in 1995.

– **Why the Group was initially represented as Tatar-American Group and whether were the governmental interests represented in it from the very beginning?**

– The government repaid its stake of 50.01% by small blocks of shares of the privatized companies of Tatarstan. The American partners, NKS Trading, invested the largest part to the issued share capital of the new company, \$10 mln, that provided them with 36.3% of shares. We got acquainted with this company in the early nineties while dealing with «Transneftproduct» and «Transneft». Our cooperation became closer after one unpleas-

ant but illustrative event. In 1992, our company «Kazan» delivered gasoil for \$6 mln to an American businessman who, from his side, hadn't paid for this delivery. NKS representatives helped us to address this issue to FBI and Federal Prosecutor Office of the USA, to start the proceeding. Later, we sold petrochemical products on the mutual beneficial basis. They became our partners and later the joined the owners of «TAIF».

**If Babaj has said something....**

– **How did you manage to successfully live through the «initial accumulation of capital» and the default of 1998?**

– By that time, we started working actively in the petrochemical branch and faced the following problem. The petrochemical branch of Tatarstan initially had very limited specialization. It could only provide the petrochemical production with raw materials, and turned to be inefficient in the market conditions. The fact is that even during the Soviet era the plant of primary distillation was established, but, let's say, it wasn't finished. Having the capacity of 7 mln tons of crude oil, during the transformation period its volumes of refining decreased

to 2 mln tons per year. These figures negatively affected as the employees working on chemical and petrochemical companies, so the republican budget. «TAIF» offered «Tatneft» and «Nizhnekamskneftekhim» to upgrade the refinery in the short-term period. But both of the above mentioned companies had enough problems connected with other owned facilities. We had to carry on the modernization with our own resources, especially as we were supported by Nikolaj V. Lemeshev (ex-minister of the petrochemical industry of the USSR). The construction of ELOU-AVT-7 unit was his idea when he took the position of the General Director of OJSC «Nizhnekamskneftekhim» in the 70s. He advised not to seek for help, but to act by ourselves. He promised to help and promised the help of his specialists. President Mintimer Shaimiev also supported our decision. In Tatarstan – if Babaj (Babaj – grandfather (tat.)) This is how people respectfully call the President..) has said something, it becomes a law. In October 1997, we took on lease ELOU-AVT-7, developed the reconstruction plan, obtained the credits from Russian and international banks, concluded the agreements with designers and suppliers of equipment. And after all, the price for crude oil began to fall. Probably you can remember that the price for crude oil reached \$6 with Urals having smaller price and the price given for petrochemicals was even smaller than that. «Tatneft» announced its default, all company's accounts were blocked, all revenues were spent for debt recovery. But this wasn't the main problem. The petroleum company rushed into the financial business and operation being unusual for it, attracted credits, bought the state treasury bills, and this resulted in such bad consequences.

In that situation, the government of the Republic took a number of decisions obliging us to purchase raw materials from «Tatneft»



*The President of the Republic of Tatarstan announced that petrochemicals and refinery was the main point of growth for the Republic, thus, the work implemented by «TAIF» is generally focused on this sphere (during the start-up ceremony of the auto-petrol plant in Nizhnekamsk)*

at the price of RUR350-400 per ton, while its price on the internal market was RUR200-280. We understood the explanation and the importance of the situation very well: the Republic hadn't enough money to pay salaries and pensions. The government took the produced crude oil as a payment for taxes (legally it was impossible to put it under arrest) and sold it for high prices with prepayment. The significant amounts were lost by us while taking the credits in foreign currency (the cost of 1 USD was 6 rubles), converted the US dollars into rubles, spent it as prepayment and gave the money back to our lenders in foreign currency again (while the rates reached the level of 29 rubles per 1 dollar). The situation remained unchanged till January 1999 – at that time «Tatneft» and other companies started to pay taxes with cash instead of products.

**– How much debts had you got at that time?**

– About \$450 mln including the credits. Today we think about it as about a nightmare. Just imagine a large governmental hall where we had been discussing the possible ways to solve the situation. Nobody had money, we also reached the critical level, the talks were started about out bankruptcy. I

was asking how it could happen as we had borrowed money from banks and the money anyway had to be returned. They answered with the question where I was going to take this money. They said that we couldn't put pressure on «Tatneft» and «Nizhnekamskneftekhim» as these companies were called as leaders of the Tatarstan economy. I disagreed. The government representatives said: «The overcoming of this situation is up to you, if you want, you can take the governmental stake in the issued capital of TAIF but taking into account that the payment for the stake from the republican companies run into debt can be received in five year's or even later». I would like to say thanks even for this decision being the only possible one for «TAIF». It was a chance, a chance to survive.

**– Had it come out that the government performed its social responsibilities on your account?**

– We were the only company to rely on. At that period, we were the only company in practice that paid taxes with money instead of produced goods.

**– How did you find your way through these problems?**

– Some time passed and «Tatneft» accounts were de-blocked, the employees working in petro-

chemical sector started paying money to the budget. One by one, the companies started paying back to us – with money or with assets. For example, «Nizhnekamskneftekhim» with its \$380 mln debt to us for straight-run gasoline, in practice returned about \$180 mln, transferring title for ELOU-AVT-7 unit. The remaining part of the debt was «eaten» by inflation and exchange rate losses. Of courses, we haven't received back all our debts. It should be said that a significant and huge work was done by the Russian and foreign lenders on restructuring the debts. No matter what, we continued working and as a result managed to get out.

### **A project of the whole-Russia importance**

**– Which company of the Group is the most successful?**

– It is a hard to specify one separate company – they all are pearls. Here I mean such companies as «TAIF-Telcom», the largest cellular operator in the Republic, established on the initial stage of our development; TV and Radio Broadcasting Company «TVT» being the provider of cable TV and multimedia services; CJSC «TAIF-NK» operating the primary crude oil distillation plant in Nizhnekamsk and the auto-petrol plant for production of high-quality gasoline that is under construction; and of course, one of the largest petrochemical facilities OJSC «Kazanorgsintez». Talking about «Kazanorgsintez», this company joined the GROUP in 2001 while the controlling stake of shares was accumulated in the «TAIF» hands by late 2002. By that time, the company showed revenues of \$245 mln, net profit – \$23 mln. This year, we expect \$400 mln of revenues, net income comes to some \$80mln. This, taking into account, that the serious accident in Orenburg almost ceased the supplies of ethane from «Orenburg-

gasprom». I would like to mention that the company's growth was realized without any significant capital investments. Our contribution consisted of the thorough analysis of finance and economic activity of this company, the measures were taken for optimization of management, including the control over the technology processes. According to our program of reconstruction developed till 2010, the plant is expected to reach revenues up to \$1.5 bln with net income reaching \$ 450-500 mln per year.

**– How did you acquire your assets?**

– «TAIF» had never participated in the privatization tenders. As a rule, we purchase securities from the secondary market. This strategy was used for example during the purchase of the controlling stake of 51% of «Kazanorgsintez».

**– Is it really possible to purchase the controlling stake on the secondary market?**

– We managed to do it. There are some professional secrets, it's a kind of science. The government offered us to pay attention to «Kazanorgsintez» as it failed to start the modernization for a long period of time. We started with 3.5% of plant shares. We had negotiated with all holders of more than 0.1% of shares. This process took for about a year. The government that earlier had offered to buy back a large block of shares decided to give it for auction. We decided that outcry would increase the interest for the shares and their market price, as well. We continued talks with the shareholders. Everything was done confidentially and all agreements with shareholders were signed almost at once. Thus, we implemented the task of consolidation of the controlling stake. When we acquired «Kazanorgsintez» its capitalization was roughly \$40-50 mln, today, it is about \$300 mln.

**– According to the development programs, the investments expected to be made to this com-**

**pany would be the largest, if compared with other companies of the Group, am I right?**

– Yes, the largest among the investment programs realized today. We have started the fundamental modernization and reconstruction on «Kazanorgsintez». Some technologies on the ethylene and polyethylene production units are changed. The entirely new unit for production of plastics under the technology bought from a well-known petrochemical company from Japan is under construction. The strategic development program presupposes altogether 36 contracts to be concluded with some of them already executed. It should be mentioned that such a kind of a project is unique for Russia. We determined a very tight schedule for its realization: the fourfold increase in the volumes of production with the quality being the best. This project will be much heard of in due course.

**– We know that the cooperation with Sberbank played an important role.**

– We have been working with Sberbank for a long time. The close cooperation began in 1999. Last autumn, we signed the agreement for the allocation of \$60 mln credit for the construction of the auto-petrol plant in Nizhnekamsk with the capacity of 600 th tons per year. This year, we reached an agreement for the credit line for \$1.5 bln with 10 years maturity period. Most recently, in October 2004, we signed the general cooperation agreement with Sberbank to organize the financing of the «Kazanorgsintez» projects for the amount up to \$600 mln. We understand clearly that Sberbank is the only bank in Russian that never borrows additional money for its operation working with the own funds. We consider this bank to be the best in terms of efficient response and quality of services.