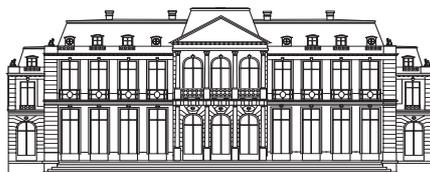


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Conference on

“CORPORATE GOVERNANCE IN RUSSIA”

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***“Case Study: Corporate Governance Practices,
Norilsk Nickel”***

Moscow

31 May - 2 June 1999



GENERAL VIEW ON CORPORATE GOVERNANCE IN NORILSK NICKEL.

This report was presented to the Conference on Corporate Governance in Russia, which was held in Moscow on May 31 – June 2 1999. It contains a general overview on corporate governance practices in one of the major Russian corporates - Norilsk Nickel, and a few ideas on how these practices may be developed.

A few words on the company. Over an extended period of time Norilsk Nickel has been a top three main world nickel producer possessing major world nickel deposit. The company's annual sales amount exceeds USD 3 bn. Norilsk Nickel employs over 110,000 people.

Norilsk Nickel is formed as a holding company, which incorporates Norilsk Combine¹ in the Far North of Russia, two more Combines – Severonickel and Pechenganickel – on the Kola peninsula, Olenegorsk Mechanical Factory and an Engineering Bureau Gipronickel in Saint-Petersburg.

Norilsk Nickel enjoys an almost monopoly on nickel production in Russia. The company's share of the world nickel market exceeds 20 per cent. It is much smaller in copper – within 5 per cent limit. It is impressive in platinum and palladium – over 2/3 of the world market.

Norilsk Nickel shares are considered “blue chips” however relative this is in the current Russian stock market condition. The company is a member of the INTERROS financial industrial group.

Norilsk Nickel Shareholders Structure

Shareholders	Shares (%)
INTERROS	54
Foreign Investors	24
Russian Investors	6
Individuals	16
Total	100

INTERROS Holding Company is a majority shareholder in Norilsk Nickel. Norilsk Nickel is run by a management team brought by INTERROS, which operates based on operational independence. INTERROS exercises its control over the company through its representatives in the Board of Directors? As well as by setting the company strategic objectives.

Foreign investors are holding almost a blocking stake in the company. Present and former employees own 16 per cent of the company. The shareholders' structure may be considered as a stable one and my knowledge of the company tells me that it is unlikely to change.

At the same time the shareholders' structure has mammoth proportions with over 200,000 shareholders, 99 per cent of which are individuals. Working with such an enormous group of shareholders demands organizational and time efforts. Out of this group, only four shareholders own stakes surpassing 1 per cent. All the other shareholders' stakes do not exceed 0.01 per cent.

¹ A Combine is a Russian word meaning a company with integrated production cycles.

We can say that although Norilsk Nickel shareholders structure is stable, the amount of the shareholders makes it difficult to manage. This is one of the reasons why Norilsk Nickel shareholders are rather passive in interaction with the company.

Classifying shareholders by their main characteristics with an objective to understand their motivations, we can spot three main groups.

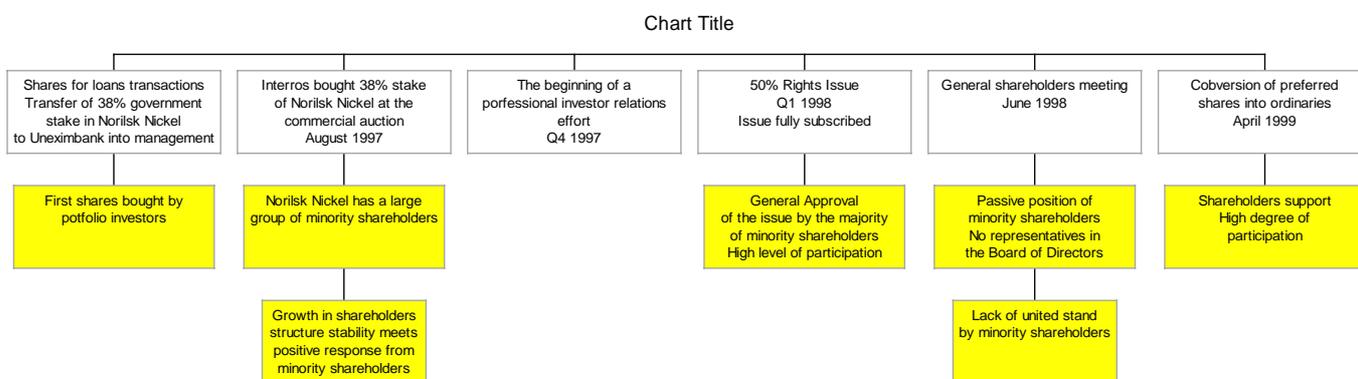
Practically all foreign investors are portfolio investors, which are interested in the company's performance only from the point of view of its share price.

The majority of the Russian investors – legal entities – are those companies which acquired Norilsk Nickel shares as an asset without having a clear idea how to use it.

The majority of individual shareholders are present and former employees of the company, who obtained shares during privatization auctions, mainly with the view to receive huge dividends.

All the three groups are not able to participate or influence Norilsk Nickel corporate governance practices, simply because they can not organize themselves into an institution able to express its opinion.

Let us now review the main corporate actions taken by Norilsk Nickel in the 1997 – 1999 period.



This simple graph reflects the main corporate events, which took place in the company in 1997 – 1999.

Surveying some of the events we should pay attention to the sale of the 38% stake at the commercial auction, an event which started a new period in Norilsk Nickel corporate governance practice.

Before that the company went through a two year period of management instability, when the directors appointed by the State, knew the inevitability of their departure. For that reason they cared only about personal interest rather than the proper company management and development. That was exactly the period when Norilsk Nickel instead of selling their products direct was surrounded by myriad of intermediaries, who buying metals below production cost drove the company into huge debts.

The emergence of a new owner created major stability in all aspects of Norilsk Nickel operations and was positively met by the investor community. New young management team came to power. July and August 1997 witnessed historically highest price levels for the company shares – USD 17.25 per share.

That event demonstrated again that minority shareholders have only a marginal role to play in Norilsk Nickel corporate life.

Another corporate event, which is worth looking into, is a 50 per cent rights issue, which took place in December 1997 – March 1998. One should not forget that initially the company management suggested a scheme of rights issue, which excluded holders of the preferred shares. It should be added to the INTERROS merit that it refused this initial proposal by the company and insisted on a scheme which allowed all shareholders to exercise their rights in subscribing to the issue. At the end, 31.5 m. new shares were placed at a price of USD 6.11 per share. The rights issue was fully subscribed to in a short period of time, bringing USD 380 m. to the company.

Basically, going through all the corporate events, we can draw a conclusion, that minority shareholders have provided reaction to the corporate events in the company only when Norilsk Nickel wanted them to.

However, Norilsk Nickel was going along the right path of developing its corporate governance and in September 1997 an Investor Relations Department was launched in the company.

It is a common knowledge how closed and intransparent Norilsk Nickel has been. Since 1997, the company has managed to establish working contacts with over 100 investment banks, pension funds, hedge funds and other investment institutions. The company has opened large chunks of economical and financial information, started issuing information materials in English in the format used by investment banks. Norilsk Nickel participated in three road shows covering London, New-York, Boston and a few other American cities as well as Tokyo and Hon-Kong. While on a road-show Norilsk Nickel representative personally met about 80 investment institutions. The company organized four trips to Norilsk combine for large groups of 20 to 40 investors, as well as numerous trips for small groups. In-1997 – 1999, the company representative participated in all conferences on investment activities in Russia held in Russia and abroad.

One would agree that this is only a beginning of Norilsk Nickel proper relations to its minority shareholders. A lot remains to be done. The company accounts should be audited to IAS standards, information on Norilsk ore deposits should be declassified and made available to investors e.t.c.

Still we should admit that Norilsk Nickel has a made a significant step towards meeting minority shareholders and other investors expectations as far as proper corporate governance is concerned.

At the same time, I still think that minority shareholders and investors should take a more active stand towards Norilsk Nickel as well as towards any other Russian company they invested into.

Given the fact that in most of the cases minority shareholders in Russian companies are rather dispersed, they lack communication and a mechanism to organize themselves into some sort of institution, able to consolidate their rights and defend their interests. I think, that one of the possible ways of resolving this situation is an introduction of “Trustees” into Russian corporate governance practice.

A Trustee can perfectly play the role of a unifying mechanism, which, having consolidated minority stakes, can block wrong management decisions and thus defend the shareholders rights.

Pavel Skitovich

The author is an ex-Norilsk Nickel employee in 1997-1999. He held a position of a Director for Equities and Investor Relations.