The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

# Norilsk Eyes Venture With BHP

By Irina Filatova

November 02, 2011

Mining giant Norilsk Nickel said Wednesday that it could create a joint venture with British-Australian miner BHP Billiton to produce nickel in Australia.

The joint venture is possible if the domestic company's "shareholders and management consider it reasonable," said Vladimir Dyachenko, head of Norilsk's scientific and technical development department.

Norilsk owns four nickel production facilities in Australia, which it acquired in 2007 in a deal to buy Canada's nickel miner LionOre and U.S. chemical company OM Group's nickel business.

"Our facilities in Australia are located in close proximity to BHP facilities," Dyachenko told journalists in Moscow, Interfax reported.

Creating the joint venture could increase the operating efficiency of Norilsk's Australian assets, because the company's production costs in the country are higher than at its domestic facilities, said Alfa Bank analyst Andrei Lobazov.

"The domestic assets will be profitable even if nickel prices fall twofold [from the current $20,000 per ton]," because the rich composition of domestic ore, which includes metals in addition to nickel, reduces extraction costs, said Nikolai Sosnovsky, an analyst at VTB Capital.

In 2009, Norilsk had to cease operations at its Australian plants, which became unprofitable after nickel prices decreased dramatically due to the financial crisis, and Sosnovsky said the situation could repeat itself if prices fall again.

The company resumed operations at one of its Australian plants in July, while the remaining facilities are still idle.

Sosnovsky also said BHP Billiton is a strong partner, which has knowledge of the local market and could provide technical expertise for Norilsk's new projects to be implemented in Australia.

Norilsk has not approached the British-Australian company on the issue yet, the domestic miner's spokeswoman said.

BHP Billiton couldn't be reached for comment on Wednesday.

Norilsk Nickel also said it will invest more than $300 million in exploration outside Russia by 2025, as it plans to expand operations abroad.

The move is part of the company's strategy, envisioning investment of more than $35 billion in production and technical development through 2025.

"The company will not only develop existing projects in Australia, South Africa, Botswana and Finland but search for and value new ones," it said in materials provided to journalists Wednesday.

Among possible options, Norilsk is looking into nickel deposits in Indonesia and Cuba, as well as copper deposits in Argentina and Peru, the company said in e-mailed comments.

The nickel giant plans to start production of iron ore, coal, molybdenum and chrome by 2025 in order to diversify its portfolio, Dyachenko said.

Norilsk Nickel, which is the world's largest nickel and palladium producer, could start mining iron ore and coal in Australia, he said, adding that the company will provide a detailed diversification plan in late 2012.

Diversification of the product portfolio will allow the company to reduce the dependence of its income on nickel prices, said Alfa Bank's Lobazov.

According to the strategy approved by Norilsk Nickel's board of directors last week, the share of nickel in the company's income structure is expected to decrease from about 46 percent this year to 31 percent in 2025, the share of copper might be reduced from the current 23 percent to 18 percent, and the share of platinum and palladium might reach 36 percent versus 18 percent this year.

The company expects the share of new products to amount to 3 percent of its income by 2025, according to  the document.

Norilsk Nickel completed its $4.5 billion buyback program and will buy back 10.95 percent of the shares tendered by shareholders seeking to sell significant stakes represented by more than 100 shares, the company said Wednesday.

The nickel giant will also buy back all the shares from shareholders offering 100 shares or less, Norilsk said in a statement posted on its buyback web site. Shareholders tendered a total of 119.8 million shares, including those represented by ADRs, the statement said.

The company was seeking to purchase up to 14.7 million of shares, or 7.7 percent of its equity capital.