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Norilsk Nickel Deal Revised

By Irina Filatova

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A general view of mining giant Norilck Nickel's copper plant in the city of Norilsk in the Krasnoyarsk region. **Ilya Naymushin**

Billionaire Roman Abramovich agreed to buy 5.87 percent of shares in nickel and palladium giant Norilsk Nickel for approximately $1.5 billion from its majority owners RusAl and Interros under revised terms of the deal disclosed by the companies Tuesday.

RusAl and Interros will sell 3.9 million and 5.4 million of Norilsk shares, respectively, to Abramovich's Millhouse for $160 per share, the companies said in a joint statement.

The deal settles a long-standing dispute between the majority owners of the nickel producer, Oleg Deripaska and Vladimir Potanin.

The agreement also stipulates that Norilsk Nickel will pay 3 billion rubles annually in dividends over the next three years, a source familiar with the details of the negotiations told The Moscow Times. The source declined to be identified because the information is confidential.

Under the revised terms, the companies will cancel treasury stock accounting for 17 percent of Norilsk Nickel's share capital bought back by Norilsk Nickel subsidiaries last year. Millhouse was to buy treasury shares accounting for 7.3 percent of the capital, according to the initial agreement, whose details were disclosed last week.

Although the new agreement contains no radical changes for majority owners, it leaves Norilsk Nickel's minority shareholders out in the cold and might affect the financial performance of the nickel giant, which will likely have to borrow to pay out the dividends, analysts said.

"If Norilsk pays $3 billion in dividends annually over the next three years, its net debt might reach $8 billion by the end of 2015," said Alfa Bank analyst Andrei Lobazov.

Given that Norilsk Nickel's debt is likely to be about $3.1 billion by the end of this year, the burden will increase significantly and might result in a revision of the company's investment program, he added.

"The company has an intensive investment program, and it might have to borrow to finance both capital expenditures and dividend payments," Lobazov said.

Norilsk plans to spend more than $30 billion on development between 2012 and 2025. The company said earlier this year that it would cut its 2012 investments, which were initially projected at $3 billion, by 10 percent.

Meanwhile, the nickel giant's stakeholders were optimistic about the company's prospects, saying that the agreement will help improve its "efficiency of investment and capital expenditures and sales policy" and will "improve the company's corporate governance."

The companies involved in the deal said they will join forces to boost the efficiency of Norilsk's business and its capitalization growth.

The revision of the agreement's terms resulted from negotiations between the parties involved, and "the conditions of the deal have improved significantly for both Norilsk Nickel and its minority shareholders," RusAl said in e-mailed comments."The redemption of the whole package of treasury shares equally increases the stakes of all shareholders and is in line with the best Western practices of corporate governance."

Billionaire Alisher Usmanov, whose Metalloinvest group holds 4 percent of Norilsk Nickel, expressed doubts last week that the terms of the initial agreement would benefit all shareholders.

Lobazov said the revised agreement benefits primarily RusAl and Interros, which will get cash from Millhouse.

Because the nature of the transaction changed, minority shareholders are unlikely to see any proceeds, which they could have received under the terms of the initial deal, he said.

If Millhouse bought the treasury shares held by Norilsk subsidiaries, the proceeds from the deal would be transferred directly to Norilsk Nickel's accounts and could be subsequently distributed in dividends among shareholders, including minority owners, Lobazov said.

Spokespeople for RusAl, Interros, Millhouse and Norilsk Nickel declined to comment on the dividend-related issues Tuesday.

RusAl plans to use the proceeds from the share sale to reduce its debt burden, which stood at $10.7 billion as of late September, said a source familiar with the matter.

The aluminum producer will use the $620 million it gets from the deal to pay off part of the loans in the first quarter of next year, said the source, who spoke on condition of anonymity because the information is confidential.

The cancellation of treasury shares will leave RusAl with a 27.8 percent stake in Norilsk Nickel, while Interros will hold 30.3 percent, the companies said in the joint statement.

As part of the effort to settle the shareholder conflict, RusAl, Interros and Millhouse will jointly deposit 20 percent of the nickel company's shares in a special bank account, down from the 22 percent stipulated by the initial agreement, the statement said.

Millhouse will get the right to vote, with the stake deposited in the account to ensure enforcement of the shareholders agreement, RusAl and Interros said earlier.

According to the new agreement, the board will have 13 members. RusAl and Interros will nominate four apiece. Millhouse will nominate one member, instead of the three stipulated in the initial terms, according to the joint statement.

Each of the companies will also nominate one independent director, with the 13th board member to be elected by minority shareholders, an option that was not part of the previous agreement.

Norilsk Nickel's board of directors will also review the appointment of Potanin as its chief executive on Dec. 17, the statement said.

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