

Potantin Yields in Norilsk Battle

By [The Moscow Times](#)

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Vladimir Potanin long exuded confidence that he would prevail over rival billionaire Oleg Deripaska in their four-year battle for control over \$30 billion Russian miner Norilsk Nickel.

Yet after appearing for most of that time to have the upper hand, Potanin finally had to cede control over the world's top nickel and palladium producer, which he effectively privatized to himself back in the 1990s.

Potanin's appointment Monday as Norilsk CEO is a face-saving compromise that cannot hide the Kremlin's insistence on bringing in Chelsea football club owner Roman Abramovich as peace enforcer, industry insiders and analysts say.

"It's important to understand Potanin's motivation: His position is very important to him," said one well-connected industry source in Moscow. "If he's a manager, even without control, he can strengthen his social status within his reference group."

With a 30.3 percent stake, Potanin will keep the largest economic interest in Norilsk. His

holding will exceed the 27.8 percent owned by Deripaska's aluminium firm, RusAl.

Abramovich will buy a stake of nearly 6 percent for \$1.5 billion but wield a voting stake of 20 percent, ending Potanin's control over the board and Norilsk's huge cash flows.

As recently as September, Potanin took the liberty of mocking Deripaska, saying that "Oleg Vladimirovich doesn't really know how to lose, to concede or to compromise."

A smile softening the tough-guy image created by his all-black outfit and stocky build, Potanin said Deripaska "apparently didn't play sports much when he was a child. I did, and I don't need to compete with anyone."

Chief Organizer

In his career as a Soviet trade official, banker, deputy premier and industrialist, Potanin, 51, has proved his ability to be on the right side of a deal, amassing a fortune estimated by Forbes magazine last March at \$14.5 billion.

He has, however, shown little appetite for day-to-day management, saying in 2000: "I always thought that it was easier for me to organize something than to execute some possibly interesting but very particular job."

For investors, who have seen the value of Norilsk cut in half from peak to trough since April 2011, the prospect of shareholder harmony — and of bumper dividend payouts — outweighs concern over Potanin's taking on the "particular job" of CEO.

"Norilsk Nickel isn't a company that requires any long-term strategic decisions," said one analyst, who requested anonymity. "The operational performance is good; it's very profitable. It's not an Apple with Steve Jobs. It's Norilsk Nickel, which is mining and just selling the metal."

Norilsk shares rallied after word of a compromise leaked out last month. News Friday that outgoing CEO Vladimir Strzhalkovsky would get a \$100 million payoff caused jaws to drop, but traders kept their fingers off the 'sell' button.

Capital Accumulation

Potanin made his first fortune as a banker after the collapse of the Soviet Union, emerging as the spokesman of a group of thrusting young capitalists as ailing President Boris Yeltsin was challenged by a resurgent Communist Party.

It was he who lobbied for what came to be called the loans-for-shares scheme, lending money to Yeltsin's cash-strapped government and auctioning off the Soviet Union's industrial legacy when the debts went unpaid.

Potanin's Uneximbank won the right to manage 38 percent of Norilsk in Nov. 1995 with a bid of \$170.1 million, just \$100,000 over the reserve price.

A bid twice as high by Rossiisky Kredit, the bank of Bidzina Ivanishvili, recently named prime minister of his native Georgia, was disqualified on a technicality.

Yeltsin defeated Communist challenger Gennady Zyuganov in 1996, and Potanin went into government as first deputy prime minister, cementing the privatizations that created a new breed of Russian oligarch.

His investment company, Interros, eventually paid \$270 million plus other fees in Aug. 1997 to formally acquire the 38 percent stake in — and majority control over — Norilsk. The price paid represents a fraction of today's valuation.

Potanin has acknowledged criticism of the sell-offs, but he said that had the entrenched "red directors" not been ousted from Russia's biggest industrial enterprises, the country's economic development would have been stunted.

Putinomics

Putin's ascent to the presidency in 2000 changed the rules of the game for the oligarchs, and the brashest of them, Vladimir Gusinsky and Boris Berezovsky, soon fled the country and forfeited their assets.

Mikhail Khodorkovsky was arrested in 2003 and later jailed for fraud and tax evasion, while his oil company, Yukos, was bankrupted and nationalized, in what was widely seen as retribution for his daring to pose a political challenge to Putin.

Potanin, whose partner Mikhail Prokhorov became Norilsk CEO in 2001, kept a lower profile as the pair built a diversified portfolio of assets spanning energy and real estate.

Their partnership had already hit the rocks when Prokhorov, Russia's most eligible bachelor, was arrested on suspicion of flying in prostitutes for a party at New Year's in 2007 in the ski resort of Courchevel, France.

Potanin slammed his partner's "scandalous" behavior, and the two split their assets. Prokhorov sold his one-quarter stake in Norilsk to RusAl for \$14 billion in cash and stock in April 2008, leaving Potanin with a stake of similar size.

At the time, the deal was seen as enjoying the tacit support of the Kremlin, but hopes of merging Norilsk and RusAl into a mining supermajor to challenge global rivals like BHP-Billiton were dashed by the global crash.

Potanin and Deripaska had a falling-out over strategy at Norilsk. Potanin established board control and launched a series of share buybacks.

Deripaska, who turned down a series of offers to buy back RusAl's stake in Norilsk, lost several court cases over the share repurchases, while management voted treasury stock for Potanin.

But, analysts say, it was the prospect of a messy round of arbitration under British law into whether the buybacks had violated their shareholders' agreement that finally led Potanin to compromise.

"Now there is a balance and no threat, and hopefully Norilsk will reshape into something closer to a proper mining company," said a second analyst, who also spoke on condition

of anonymity.

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