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Timminco CEO Blamed For Norilsk Woes

'Like Soviet Days'; Shareholder UC Rusal slams governance

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Russian mining giant Norilsk Nickel is in disarray with a falling share price, multiple chief executive changes and many top management quitting their jobs. And according to UC Rusal, a rival company and major shareholder, much of the fault lies with controlling shareholder Vladimir Potanin and one key director: Timminco Ltd.'s Heinz Schimmelbusch.

Mr. Schimmelbusch was elected as an independent board member in early July. But since then he has voted in lockstep with Mr. Potanin. That swing vote helped Mr. Potanin tighten his control of Norilsk despite the protests of Rusal, which owns 25% of the shares and hopes to combine the two companies.

At the first board meeting after the elections, Mr. Potanin's group of four directors, plus Mr. Schimmelbusch, voted to replace CEO Denis Morozov.

Immediately afterwards, a new candidate with ties to Mr. Potanin walked into the room and the same five people (out of nine on the board) elected him, according to Artem Volynets, Rusal's deputy CEO.

Then at the second board meeting a month later, the group of five voted to change the CEO again.

"It feels a bit like Kremlin politics of the Soviet days," Mr. Volynets said in an interview. "We believe that's completely inappropriate, obviously has no resemblance to proper corporate governance and leaves us in no doubt as to which camp Mr. Schimmelbusch belongs."

The firing of Mr. Morozov, who was viewed as independent of Mr. Potanin, led to mass resignations in the Norilsk head office. Mr. Volynets said about 20 top managers have departed, including Tav Morgan, deputy CEO. That uncertainty has hit Norilsk's share price, which is down about 40% from its high in the spring.

He added that minority shareholders in Norilsk have told him that Mr. Schimmelbusch does not return their calls, even though they voted him on to the board as one of the two independent members.

While Rusal wants to eventually merge with Norilsk, its first priority is shaking up the board. The aluminum company, controlled by Oleg Deripaska, hopes to expand the board from nine members to 13 to make it independent from Mr. Potanin's control. It then wants to conduct a "proper" search for a new CEO.

Most recently, Mr. Deripaska and Alexander Bulygin, Rusal CEO, visited Norilsk's operations in northern Russia. In an open letter to Norilsk, Mr. Bulygin said the environmental situation is on the "brink of catastrophe" and that Rusal would prepare a feasibility study to modernize it at no cost to Norilsk.

"They were so depressed to see the poor state of operations," Mr. Volynets said. He also said they were the only two current board members to visit the site in the past five years.

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